

LEGISLATIVE AUDIT COMMISSION



Review of
Department of Central Management Services
Two Years Ended June 30, 2004

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REVIEW: 4221
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES
TWO YEARS ENDED JUNE 30, 2004

FINDINGS/RECOMMENDATIONS - 24

ACCEPTED - 23
UNDER STUDY - 1

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 6

This review summarizes the audit of the Department of Central Management Services for the two years ended June 30, 2002, filed with the Legislative Audit Commission April 26, 2005. The auditors conducted a compliance audit and a financial audit in accordance with *Government Auditing Standards* and State law, and stated that the financial statements of the Department are fairly presented.

The Department of Central Management Services (CMS) is part of the executive branch of government of the State of Illinois and provides a wide variety of centralized services to other State and local government agencies. As of July 1, 2004, CMS organized into eight major bureaus: Benefits, Communication and Computer Services, Office of Communication and Information, Personnel, Property Management, Strategic Sourcing and Procurement, and Administrative Operations. The current organizational structure was developed to provide streamlined management, improved accountability and improved efficiency in the delivery of service to other agencies. The Department is responsible for the coordination of data processing and data communications; providing personnel, procurement, vehicles, and property management services; management of State employee benefit plans; centralized accounting for revolving and trust funds under its control; and administration of the State's Business Enterprises program for Minorities, Females and Persons with Disabilities.

Central Management Services administers several nonshared funds including five internal service funds, nine special revenue funds, two debt service funds, three enterprise funds, two agency funds and pension and other employee benefit trust funds.

During the two-year period under review, there were four directors at CMS:

- Michael S. Schwartz retired as the Director on September 30, 2002;
- Stephen Schnorf was appointed acting Director from October 1 through December 26, 2002;
- Nancy White was appointed acting Director from December 27, 2002 through January 16, 2003; and
- Michael Rumman was appointed on January 17, 2003.

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Director Rumman had no previous employment with CMS. On April 4, 2005, Director Rumman announced his impending retirement as Director of CMS. However, he is now expected to leave the position whenever the Legislature adjourns the Spring session. It is expected that the Assistant Director, Paul Campbell, will be named acting Director.

The average number of employees was:

	FY04	FY03	FY02
Administrative Operations	152	81	80
Communications & Computer Services	330	352	390
Personnel	132	137	158
Benefits	114	122	126
Support Services	226	243	256
Property Management	138	154	170
Information Services	51	57	57
Business Enterprise for Minorities, Females & Persons with Disabilities	6	6	7
Internal Security & Investigations	31	36	45
TOTAL	1,180	1,188	1,289

Expenditures From Appropriations

The General Assembly appropriated \$3,423,139,434 to the Department for the year ended June 30, 2004. Appendix A summarizes these appropriations and expenditures by fund for the period under review. Of the Department's appropriations, 31% are from the General Revenue Fund, and the remaining appropriations are from 17 other funds. Of the Department's expenditures, 34.5% are from the General Revenue Fund.

Total expenditures of the Department increased by \$707.5 million from \$2,322,793,595 in FY02 to \$2,660,565,773 in FY03 (14.5%), and to \$3,030,289,106 in FY04 (13.9%). Examples of significant variations in expenditures between FY02 and FY04 included:

- \$289 increase in GRF is attributable in part to consolidations of audit, legal and facilities managements completed in FY04;
- \$13 million increase in Road Fund for group insurance;
- \$15 million decrease in local government contributions in the Health Insurance Fund;
- \$14 million decrease for the Statistical Services Revolving Fund due primarily to the State Information Technology project which ended in 2003;
- \$29 million decrease in telecommunication services in the Communications Revolving Fund;
- \$37 million increase in the new Efficiency Initiatives Revolving Fund to pay vendors who had contracts specifically related to efficiency initiatives;

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- \$6 million increase in the Wireless Service Emergency Fund as a result of several large carriers submitting subscriber counts during FY04 that were not provided in FY03 and prior. The bureau shortened the time lag between receipt of funds and disbursement;
- \$32 million in the new Wireless Carrier Reimbursement fund for equipment and upgrades; and
- \$369 million increase in the Health Insurance Reserve Fund due to the increased cost for the managed care health programs and the increase cost related to the self-insured health, dental and pharmacy programs.

Lapse period spending in FY04 was 7.8%, or \$237.5 million.

Ordinary and contingent expenditures and all other expenditures are described by object in Appendix B.

Cash Receipts

Appearing in Appendix C is a summary of all cash receipts of the Department from FY02 through FY04. Total cash receipts increased from \$1,686,516,018 in FY02, to \$2,096,871,926, an increase of \$410.4 million or 24.3%. Examples of significant variations in receipts from FY02 to FY04 included:

- \$110 million in the new Efficiency Initiatives Revolving Fund from payments from various agencies that benefited from efficiency initiatives; and
- \$306 million in Health Insurance Reserve Fund due to major increases in healthcare expenses.

Property and Equipment

Appendix D provides a summary of property and equipment for FY04 and FY03. The balance as of the end of FY04 for property and equipment was \$528,269,000. In FY04, the majority of property and equipment (\$370.9 million) was comprised of buildings and building improvements.

Accounts Receivable

According to the Department, net accounts receivable increased from \$17 million as of July 1, 2002, to \$19.6 million as of June 30, 2004. The largest receivables were \$8.8 million for the Teacher Health Insurance Security Fund, and \$7.7 million for the Health Insurance Reserve Fund.

Efficiency Initiative Payments

Appendix E presents a schedule of efficiency initiative payments made by the Department in FY04. These payments, totaling \$24.8 million, were deposited directly into the Efficiency Initiatives Revolving Fund. The most significant efficiencies, \$20.5 million, came from procurement efficiencies, including \$11.4 million for efficiencies in the Health Insurance Reserve Fund.

Accountants' Findings and Recommendations

Condensed below are the 24 findings and recommendations included in the audit report. There were two repeat findings. The following recommendations are classified on the basis of updated information provided by Director Rumman on May 11, 2005.

- 1. Make payments for efficiency initiative billings only from line item appropriations where savings would be anticipated to occur. Further, seek an explanation from the Governor's Office of Management and Budget as to how savings levels were calculated, or otherwise arrived at, and how savings achieved or anticipated impact the Department's budget. Finally, as provided in statute, establish the amount of cost savings to be realized by State agencies from implementing efficiency initiatives or seek legislative changes to the law to assign that responsibility to the Governor's Office of Management and Budget.**

Findings: The Department made payments for efficiency initiative billings from improper line item appropriations. Further, the Department appears to have transferred responsibility for determining cost savings for efficiency initiatives to another agency when the responsibility is granted to the Department by State law.

▪ Efficiency Initiative Payments Billed to the Department of CMS

Public Act 93-0025, in part, outlines a program for efficiency initiatives to reorganize, restructure and reengineer the business processes of the State. The State Finance Act details that the amount designated as savings from efficiency initiatives implemented by the Department of Central Management Services shall be paid into the Efficiency Initiatives Revolving Fund. Amounts designated by the Director of Central Management Services and approved by the Governor as savings from the efficiency initiatives authorized by Section 405-292 of the Department of Central Management Services Law of Civil Administrative Code of Illinois shall be paid into the Efficiency Initiatives Revolving Fund. **"State agencies shall pay these amounts...from the line item appropriations where the cost savings are anticipated to occur."** (30 ILCS 105/6p-5)

During FY04, the Department paid eight billings totaling \$24,843,842 for savings from efficiency initiatives. The initiatives and amounts billed to the Department were:

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BILLING DATE	INITIATIVE	BILLED AMOUNT
09/19/03	Procurement Efficiency	\$ 11,018,800
09/19/03	Information Technology	47,763
09/19/03	Vehicle Fleet Management	34,993
05/14/04	Facilities Management Consolidation	1,323,230
06/17/04	Procurement Efficiency	550,000
06/28/04	Procurement Efficiency	9,014,243
08/04/04	Internal Audit Consolidation	2,700,000
08/13/04	Legal Consolidation	154,813
		TOTAL: \$ 24,843,842

With regard to billings paid by the Department, the only guidance CMS received from the Governor's Office of Management and Budget (GOMB) on the September 2003 billings was the amount of payments that should be taken from General Revenue Funds (\$2,495,956) versus Other Funds (\$8,605,600). While this guidance from GOMB directed the Department to make payment for the Vehicle Fleet Management Initiative from General Revenue Funds, the Department used Communications Revolving Funds and State Surplus Property Revolving Funds to make part of the payment. A Department official noted later billings (paid from May through August 2004) were generally driven by the Department and not GOMB.

Based on their review, the auditors question whether the appropriate appropriations, as required by the State Finance Act, were used to pay for the anticipated savings. A Department official noted that GOMB provided no direction for where savings associated with the September 2003 billings were to occur. CMS made payments for these billings **not** from line item appropriations where the cost savings were anticipated to have occurred, as provided for in the State Finance Act. Rather, the Department made payments for the billings generally where it had flexibility in funding levels. For example, the Department used:

- \$5,000,000 from appropriations from the Communications Revolving Fund to the Bureau of Communication and Computer Services for telecommunications services to make part of the payment for the Procurement Efficiency billings. A Department official indicated they anticipated savings to occur in the telecommunications area.
- \$5,000 from an appropriation to the Bureau of Personnel to make payment for the Information Technology Initiative. The funds were specifically appropriated "For the Veterans' Job Assistance Program."
- \$5,000 from an appropriation to the Bureau of Support Services to make payment for the Information Technology Initiative. The funds were specifically appropriated for "Expenses Related to the Procurement Policy Board."

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The table below provides an illustration of the specific funds and line items the Department used to make payments for the efficiency initiatives. Additionally, the table illustrates which efficiency initiatives were paid from the various line item appropriations.

FUND ⁽¹⁾	LINE ITEM APPROPRIATION	AMOUNT PAID	TOTAL APPROPRIATION FOR LINE ITEM ⁽²⁾	EFFICIENCY INITIATIVE					
				FACILITIES MANAGEMENT	AUDIT	LEGAL SERVICES	PROCUREMENT	INFORMATION TECHNOLOGY	VEHICLE FLEET MANAGEMENT
0001	For Personal Services	\$ 2,525,786.00	\$ 10,198,100.00	✓	✓	✓			
0001	For Employer Paid Retirement	175,242.00	423,300.00	✓	✓	✓			
0001	For Contributions to SERS	446,857.00	1,370,600.00	✓	✓	✓			
0001	For Contributions to Social Security	131,204.00	217,400.00		✓	✓			
0001 0903	For Contractual Services	431,705.50	12,362,200.00	✓	✓	✓	✓		✓
0001	For Travel	54,268.00	55,900.00		✓	✓			
0001	For Commodities	21,295.00	18,000.00		✓	✓			
0001	For Printing	24,070.00	24,200.00		✓	✓			
0001	For Equipment	65,606.00	11,000.00		✓	✓			
0001 0304	For EDP	2,290,763.00	92,658,600.00		✓		✓	✓	
0001 0312	For Telecommunications	5,049,632.00	158,278,300.00		✓	✓	✓		
0001 0312 0903	For Operation of Auto	32,829.50	312,800.00		✓				✓
0001 0907	For Lump Sum and Other Purposes	13,489,283.00	2,502,436,754.00	✓	✓		✓	✓	
0001	For Lump Sum, Operations	10,000.00	519,300.00					✓	
0001	For Awards and Grants, Lump Sum and Other Purposes	95,301.00	252,204.00	✓					
⁽¹⁾ Legend: 0001: General Revenue Fund; 0304: Statistical Services Revolving Fund; 0312: Communications Revolving Fund; 0903: State Surplus Property Revolving Fund; 0907: Health Insurance Reserve Fund. ⁽²⁾ Appropriations taken from original appropriations bill – the Department had transfers of funds from other State agencies during FY04 for consolidation of services.									

Use of appropriations unrelated to the cost savings initiatives results in non-compliance with the State Finance Act. Furthermore, use of appropriations for purposes other than those authorized by the General Assembly effectively negates a fundamental control established in State government. Finally, use of funds unrelated to the savings initiative may result in an adverse effect on services the Department provides.

- **Efficiency Initiative Payments Billed to Other State Agencies**

Public Act 93-0025 also created a new section in the Department's Law of the Civil Administrative Code. The new section, in part, states "the Department **shall have the power and duty to** (3) Establish the amount of cost savings to be realized by State agencies from implementing the efficiency initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund." (20 ILCS 405/405-292 (a)(3))

While the State Finance Act directs CMS to develop the amounts to be billed to State agencies, Department officials noted that GOMB, in fact, established the amounts that were billed to all State agencies in September 2003, including the Department. Department accounting staff printed the amounts received from GOMB onto Department invoices. These invoices were then returned to GOMB – which then decided which invoices would be sent to agencies for payment for the billings sent in September 2003.

Original Response: The Department disagreed with most of the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation that it only make payments for efficiency initiative billings from line item appropriations where savings would be anticipated to occur, and also agrees that, consistent with 20 ILCS 405/405-292(a)(3) it should determine the anticipated savings to be realized by state agencies from efficiency initiatives, for approval by the Governor's Office of Management and Budget, a unit of the Governor's Office.

In Fiscal Year 2005, because the Department had actual data regarding Fiscal Year 2004 savings, its anticipated savings information to the agencies is more robust, and that information is reflected in EIRF billings for Fiscal Year 2005, and will be reflected in such billing for Fiscal Year 2006. This information will better enable agencies to determine the specific funds from which to account for these savings.

2. **Develop a recommendation decision memorandum for director approval prior to allowing vendors to begin work on State projects. Additionally, maintain individual scoring sheets completed by evaluators to properly support the award of taxpayer monies to contractors.**

Findings: The Department's contract files lacked basic information, such as individual scoring sheets and written determinations for contract award, to adequately document the evaluation and selection process. Documentation of the process used and decisions made in the evaluation and scoring of proposals is a critical control component to ensure a fair and open procurement process.

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The auditors selected nine contracts related to the Department's major initiatives awarded in FY04, totaling a maximum award amount of \$69 million, and reviewed the procurement and award files at the Department. The listing of contracts is provided below along with the vendor awarded the contract and maximum contract dollar amount.

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT ⁽¹⁾	MISSING DOCUMENTATION		
				INDIVIDUAL EVALUATIONS	AWARD RECOMMENDATION	CONTRACT VALUE
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750		✓	
IT Rationalization	BearingPoint, Inc./Accenture, LLP	02/20/04	21,500,000		✓	✓
Procurement Assessment	McKinsey and Company, Inc.	07/18/03	14,720,000	✓		
Telecom Rationalization	Electronic Knowledge Interchange, Inc.	02/20/04	6,500,000	✓	✓	
Risk Assessment	Deloitte and Touche, LLP	11/10/03	386,825		✓	
Strategic Marketing	Team Services, LLC	01/23/04	360,000 ⁽²⁾	✓	✓	
Fleet Management	Maximus, Inc.	02/09/04	214,000	✓	✓	
Server Consolidation	BearingPoint, Inc.	07/25/03	195,000	✓	✓	
Software Review	BearingPoint, Inc.	07/25/03	198,000	✓	✓	
TOTAL: \$ 69,017,575						
⁽¹⁾ Amounts taken from CMS postings in the Illinois Procurement Bulletin.						
⁽²⁾ Calculated from contract terms.						

- **Lack of Individual Evaluation Materials for Award**

In 67 percent (6 of 9) of the contract files reviewed, the auditors found no evidence of individual scoring sheets to evaluate proposals submitted for the procurement.

On the State Purchasing Officer's (SPO) web page, the Department maintains a "Bid File Checklist-Other Agencies" that requires "all evaluation material (individual and total scores- a blank set and completed sets by each evaluator)" to be sent to and maintained by the Contract Compliance Office of the Bureau of Strategic Sourcing and Procurement (BOSSAP) Knowledge Management Division. Further, another document on the SPO web page entitled "Evaluation Procedures for Bids (IFB) and/or Proposals (RFP)" states that "An evaluation form must be completed by each committee member for each proposal...Individual scores for elements should be totaled and divided by the number of evaluators to arrive at a team average...Evaluators should prepare a list of Pros (strengths) and Cons (weaknesses) for future reference in the event of inquiries regarding ratings."

While the Department's contract files contained **summary** scoring sheets for each procurement tested, 6 of 9 contract files did not have the **individual** evaluators' scoring sheets. Information presented on the summary scoring sheets varied among procurement opportunities. Some summary sheets did not identify who the evaluators were and some summary scoring sheets did not show a breakdown of the scoring by evaluation category.

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For example, the procurement file for the Telecom Rationalization award to Electronic Knowledge Interchange, Inc. (EKI) showed that EKI was the only proposer to achieve the required number of technical points to have pricing considered. However, there were **no individual scoring** sheets in the file completed by the evaluators. Additionally, the file **did not contain the pricing** submitted by EKI for the RFP.

▪ Award Recommendation Documentation

In 89 percent (8 of 9) of the contract files, the auditors did not find evidence of a decision memorandum to the Director recommending the award of a contract to a specific vendor. The file for the Procurement Assessment did contain a decision memorandum to the Director that provided specific details on why the evaluation team recommended McKinsey and Company, Inc. (McKinsey) for the project. This included information on technical scoring categories and price evaluation.

The Illinois Administrative Code requires for contracts that “Each written determination shall be filed in the solicitation or contract file to which it applies, shall be retained as part of such file for so long as the file is required to be maintained, and, except as otherwise provided by statute or rule, shall be open to public inspection.” (44 Ill. Adm. Code 1.7025(e))

Department officials indicated that contract approval sheets could be used for the same purpose as a decision memo. However, a review of the approval sheets showed that the Director signed these **after** work had already commenced by the vendor.

Good business practice would require the Department to document how taxpayer funds were to be utilized. Additionally, the State Records Act (5 ILCS 160/8) dictates that “The head of each agency shall cause to be made and preserved records containing adequate and proper documentation of the...decisions, procedures, and essential transactions of the agency designed to furnish information to protect the legal and financial rights of the state and of persons directly affected by the agency’s activities.”

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department agrees with the recommendation and will take the necessary steps to ensure that a written document with appropriate approval be in place prior to allowing vendors to begin work on State projects and to maintain individual scoring sheets, or summary sheets with individual scorer’s initials, in the appropriate procurement files.

The Department agrees that these are examples of good business practices. For that reason, the Department established a Bid File Checklist in October 2004—a few months after the current audit period ended—that recommended that all agencies, including CMS, maintain such documentation in the procurement files.

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The Department has issued "Chief Procurement Officer (CPO) Notice #37" (attached), effective immediately, to require such documentation be maintained in the solicitation or contract file. The CPO Notice requires that all competitive procurement awards must (1) be preceded by a written determination recommending the award of a contract to a specific vendor, (2) set out sufficient facts, circumstances, and reasoning as will substantiate the specific determination that is made, and (3) be supported by such documentation as the Procurement Business Case (PBC), relevant approval documents, completed evaluation forms from each individual evaluator and the combined summary.

In addition, while a State Purchasing Officer (SPO) is responsible for the execution of the written determination, other State personnel, particularly technical personnel and appropriate personnel in the purchasing agency, are responsible for furnishing to the SPO the information necessary for the determination. When requested, such information shall be furnished in writing to the SPO who shall have the authority to decide the final form and content of the determination and to resolve any questions or conflicts arising with respect to the determination.

The Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify this CPO Notice and institutionalize this practice.

3. Review the process for utilizing vendors to provide assistance in developing specifications and information to be included in Requests for Proposals so as to not prejudice the rights of other prospective bidders or offerors and the public.

Findings: The Department of Central Management Services (Department) used vendors to develop specifications in Requests for Proposals (RFP) – including some vendors that eventually received awards for the procurement opportunities. While allowable under Procurement Rules, the extensive nature of the vendors' participation in the collection of data and/or the preparation of RFP materials and the frequency in which such vendors were ultimately awarded the contract creates, at minimum, the appearance that such vendors had an advantage over other proposers not involved in the preparation of RFP information or materials.

"Specifications may be prepared by other than State personnel, including, but not limited to, consultants, architects...and other drafters of specifications for public contracts when the Procurement Officer determines that there will be no substantial conflict of interest...The person who prepared the specifications shall not submit a bid or proposal to meet the procurement need unless the agency head, and not a designee, determines in writing that it would be in the best interest to accept such a bid or proposal from that person. A notice to that effect shall be provided to the CPO and, if approved by the CPO, published in the [Procurement] Bulletin."

(44 Ill. Adm. Code 1.2050 (i))

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The Department has adopted *general* guidelines that prohibit a person who prepared the specifications from submitting a bid or proposal for the procurement unless the agency head determines in writing that accepting such a bid or proposal would be in the State's best interest. However, the Department does not have any *specific* guidelines to determine under what circumstances the State should use vendors to assist in preparing specifications and the Department lacks specific standards designed to ensure that State personnel evaluating bids and proposals are not biased toward awarding the engagement to a vendor who assisted in preparing the specifications.

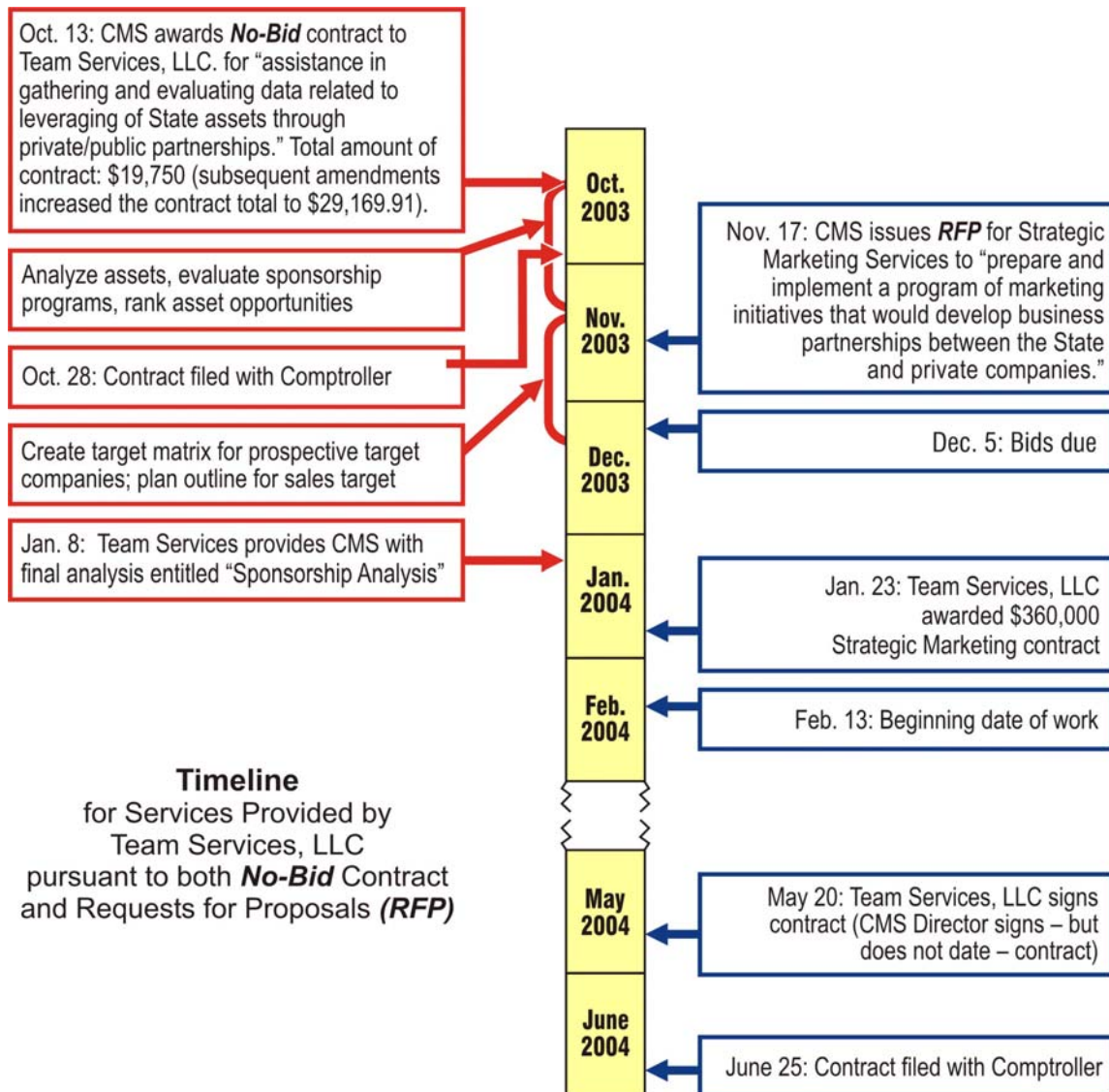
In 67 percent (6 of 9) of the contracts reviewed, the Department used vendors, that eventually received the award, to participate in the development of information for the RFP and/or were granted a waiver by the Department to propose on the procurement. Three of the six had information attributed to them in the RFP. The table below illustrates the contracts where this was applicable:

CONTRACT PURPOSE	WINNING VENDOR	VENDOR DEVELOPED INFORMATION IN RFP	WAIVER GRANTED BY THE DEPARTMENT
Procurement Assessment	McKinsey and Company, Inc.	Yes	Yes
IT Rationalization	BearingPoint, Inc./Accenture, LLP	Yes	Yes
Strategic Marketing	Team Services, LLC	Yes	Yes
Fleet Management	Maximus, Inc.	No	Yes
Server Consolidation	BearingPoint, Inc.	No	Yes
Software Review	BearingPoint, Inc.	No	Yes

The auditors' review of procurement files and interviews with Department staff found that:

- The Department utilized McKinsey and Company, Inc. (McKinsey) to gather information on procurement spending by State agencies. According to a Department official, this work was performed on a pro bono basis for the State. A Department official indicated that McKinsey actually projected \$100 million savings figure for FY04 if the procurement project was started on July 1 and twice as much the next year. Due to time constraints, McKinsey did a "deep dive" into 2-3 spending areas to come up with these numbers. McKinsey was listed as the source for much of the factual information in the RFP.
- The Department utilized Accenture to perform a strategy study in the IT area. Expenditure information in the IT Rationalization RFP was attributed to Accenture, LLP.
- The Department utilized Team Services, LLC (Team Services), under a non-competitively bid contract, to provide contractual assistance to the Department in an extremely similar project to what was eventually awarded to Team Services as the Strategic Marketing Initiative. The work performed on this no-bid contract overlapped with the issuance of the RFP for the Strategic Marketing Initiative. The exhibit below highlights the similarities and overlap in services performed by Team Services:

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From the auditors' review of the procurement files for these contracts, they could not find evidence, in writing, that there would be no substantial conflict of interest by allowing vendors to assist in specification development and bid on the procurement opportunity, why it was in the best interest of the State to accept bids from these vendors, and there was not a notice posted in the Procurement Bulletin – as required by the Illinois Administrative Code.

In other instances:

- The Department had a non-State employee review the RFP for the Procurement Assessment prior to the release of the RFP. This individual subsequently was named as partnering with the winning vendor, McKinsey, in its proposal. During the auditors' review of the file for the Procurement Assessment, the auditors discovered a memo to a Department official from this individual suggesting that benchmarking be included in the goals section of the RFP to quantify the current status of

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procurement efficiency. Benchmarking was included as goal number seven in the RFP.

- The Department utilized a consultant to develop the RFPs for the IT and Telecom Rationalization projects that were paid under a contract exempt from the bidding process. The consultant was to: (1) Draft the supplies and services section of the RFP; (2) Provide assistance with development of evaluation criteria and a scoring system for the bids; and (3) Provide ongoing advice during the bid evaluation and vendor selection phase. This consultant was retired from one of the vendors selected for the award.

Department officials indicated that outside assistance was needed to either develop RFP specifications or to provide consultation and data gathering due to a lack of internal resources. However, the use of vendors to provide assistance in preparing RFPs, and the subsequent award of these contracts to these vendors, can create the appearance that the procurement was not conducted in a fair and open manner.

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation and will take steps to review its process for utilizing vendors to provide assistance in developing information to be included in Requests for Proposals (RFP).

The Department has issued "Chief Procurement Officer (CPO) Notice #38" (attached), effective immediately, mandating the new practice effective immediately. In summary, the CPO Notice states that if a vendor assists the State in performing a study or review, or in gathering data for a particular project or initiative, then a Notice will be published in the Illinois Procurement Bulletin prior to any such work being performed. The Bulletin Notice will include the project/initiative name, the vendor name, a Statement of Work, and the fact that any work product developed as a result of the engagement will be made available to potential vendors should the work result in the publication of a Request for Proposal (RFP).

Furthermore, the actual solicitation will again identify the vendor receiving the waiver, a detailed justification, and a statement of the work product or other information that is being made available for interested parties to review as part of their preparation of the response to the solicitation. This information will be fully and completely available to interested parties on the day the solicitation is first published in the Bulletin.

In addition, the Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify the CPO Notice and institutionalize this practice.

4. **Follow evaluation criteria stated in Requests for Proposals when evaluating and awarding State contracts. Additionally, develop addendum to Request for Proposals when determined there needs to be a change to the evaluation criteria so that all vendors are assured of a fair and open contracting process.**

The Department of Central Management Services (Department) used evaluation criteria to evaluate vendor proposals that were not stated in the Request for Proposals (RFP). Changes in scoring methodology were not communicated to proposing vendors or reflected in an addendum to the RFPs. Additionally, in one of these instances, the Department awarded a contract to a vendor that had not received the highest scoring total based on evaluation criteria set out in the RFP.

The Illinois Administrative Code states that proposals shall be evaluated only on the basis of evaluation factors set forth in the RFP. Price will not be evaluated until ranking of all proposals and identification of the most qualified vendors (44 Ill. Adm. Code 1.2035 (h)(2)).

In 44 percent (4 of 9) of the contracts the auditors reviewed, the Department used different criteria when evaluating the price component of the proposals. The results are summarized below:

- **Risk Assessment, Server Consolidation, and Software Review Contracts** – Department RFPs defined single formulas to use in evaluating pricing submitted by vendors to the procurement opportunity. However, in practice, the Department broke the pricing out into two scoring categories – generally, one for fixed price and another for a blended rate. According to Department staff, while this evaluation methodology was slightly different than presented in the RFP, there was no notification to proposers of the change. During the auditors' review of the procurement files, it did not appear that this change in methodology changed the award of the contract.
- **Fleet Management Contract** – Again the RFP defined a single formula driven evaluation of pricing for this project. However, a Department official noted there was no way to apply a single formula as stated in the RFP to the pricing information submitted by the vendors – assumptions had to be made because two vendors did not submit amounts for travel and another vendor did not submit a rate for blended work. The Department should have gone back to the individual vendors for clarification of pricing so that a valid evaluation and comparison could have been made. The Illinois Administrative Code allows corrections to bids, proposals or other procurement processes, but only to the extent not contrary to the best interest of the State or the fair treatment of other bidders. (44 Ill. Adm. Code 1.2038 (a)) The Department did go back to a vendor for clarification of pricing during the bid process. The vendor refused to commit a single figure for travel and expenses as well as a blended hourly rate for subsequent work. However, the contract was ultimately awarded to this vendor.

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In another contract, the auditors could not tell whether vendor proposals were evaluated based on RFP criteria due to a lack of individual scoring sheets and a scoring algorithm. In the **Telecom Rationalization Contract** the auditors found a summary-scoring sheet for this project showed that only one vendor was scored with enough technical points to have price considered. However, the auditors were unable to determine whether RFP criteria was used in the evaluation of this project due to a lack of individual scoring sheets or a description of evaluation categories being maintained in the procurement file.

Additionally, the auditors found that the **Software Review** project was awarded to a vendor that did not receive the highest total points for technical merit and cost as outlined in the RFP. After proposals were submitted, evaluated and scored, the Department made the decision to use a single vendor for both the Server Consolidation and Software Review contracts. However, the desire to award both projects to a single vendor was not part of the RFP evaluation criteria and, according to Department staff, was not communicated to potential vendors. Department documentation appears to show this solicitation and the Server Consolidation solicitation were designed and intended to be separate projects with independent awards based on merits of the proposals within each separate solicitation.

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation and has issued "Chief Procurement Officer (CPO) Notice #40" (attached), effective immediately, stating that when developing a Request for Proposal (RFP) document, the evaluation criteria and the sourcing methodology must accurately reflect the proposal specifications. The Department will continue to follow evaluation criteria stated in Requests for Proposals (RFP) when evaluating and awarding State contracts. The CPO Notice also requires the Department to publish an Addendum to the Illinois Procurement Bulletin in the event the evaluation criteria change. The CPO Notice requires the Department to follow the National Association of State Procurement Officers (NASPO) best practice to utilize sub-criteria in its evaluations.

The evaluation criteria appearing in the RFP document must correspond to the elements of the proposal that will be evaluated. Detailed sub-criteria further defining those criteria and a complete scoring breakdown must be documented by the proposal opening date, and maintained in the solicitation or contract file.

The pricing criteria in the RFP document must include the specific weighting points to accurately reflect the evaluation process. For example, if the initial term requests a flat fee, and any renewal option requests an hourly rate of any kind, the RFP shall indicate the percentage of weight applied to each of the pricing components.

In addition, the Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify the CPO Notice and institutionalize this practice.

5. Allow vendors to only revise sections of proposals as stated within the purpose for requesting a best and final offer.

Findings: The Department of Central Management Services (Department) allowed a vendor to extensively revise its proposal during the best and final process after initial scoring evaluations were completed. Several items deleted by the vendor during the best and final process eventually were added back into the agreement, in the form of contract amendments, subsequent to the awarding of the contract, potentially costing the State \$5.75 million.

Documentation contained in the procurement files for the Asset Management professional services procurement opportunity showed that the Department evaluated proposals and summarized the information on November 4, 2003. The table below shows the Department's evaluation summary for the Asset Management procurement.

VENDOR	INITIAL PRICE	AVERAGE TECHNICAL POINTS	PRICE POINTS	TOTAL POINTS
IPAM	\$ 35,940,500 ⁽¹⁾	677	63	740
Vendor A	\$ 23,070,000 ⁽²⁾	629	102	731
Vendor B	\$ 21,974,480 ⁽²⁾	508	200	708
Vendor C	\$ 22,354,400 ⁽²⁾	534	98	632
Vendor D	\$ 29,975,125 ⁽²⁾	433	71	504
⁽¹⁾ Provided by CMS staff. ⁽²⁾ Taken from State of Illinois Large Transaction Report.				

The Request for Proposals (RFP) for the Asset Management professional services procurement opportunity informed proposers that the Department "...may request best & final offers if deemed necessary, and will determine the scope and subject of any best & final request." On December 8, 2003, only one proposing vendor, Illinois Property Asset Management, LLC (IPAM) was provided the opportunity to submit a best and final offer. There was no documentation in the procurement file addressing why other responsive proposers were not provided a best and final opportunity.

The Department's December 8, 2003 correspondence to IPAM states, "The purpose of this BAFO is to provide you with an opportunity to enhance the pricing and to improve any of the services offered within your original proposal." While the price decreased from \$35.9 million to \$24.9 million as a result of the best and final process, IPAM's technical proposal also significantly changed. The auditors' review of the original proposal and BAFO submitted by IPAM noted:

- **Revision of Joint Venture Composition:** Background and staffing qualifications in the vendor proposals to this RFP were valued at 475 of 800 (59 percent) total evaluation points. IPAM did not exist as an entity at the time proposals were submitted, evaluations were conducted, or an award was made.

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In its original proposal, a joint venture was to be developed and be known as IPAM if the vendor received the contract from the State. The award was announced on December 29, 2003 and IPAM filed articles of organization with the Secretary of State on January 15, 2004. However the make-up of the proposed joint venture changed from the original proposal to the BAFO.

In the original proposal, IPAM was to be a joint venture of two established firms, Mesirow Stein Development Services and New Frontier Companies, and a “To be determined M/WBE (minority/women’s business enterprise)” that would represent 20 percent of the ownership.

In the BAFO, **after** the initial proposals had been scored for background and staffing, New Frontier Companies was dropped as one of the joint venture partners and, according to Department staff, no M/WBE firm had been named as of December 14, 2003.

- **Revision of Performance Guarantee:** IPAM proposed putting portions of its fees at risk in the event that it did not meet the State’s objectives. IPAM revised the performance guarantee from five items in the original proposal down to two in the BAFO.

The two remaining performance guarantees related to either a rebate of fees by IPAM or an increase in fees to IPAM based on how well the savings goal of \$14 million in FY04 was realized. A Department official stated that the performance guarantee was not included in the final contract because the Department determined it was not in the best interests of the State.

- **Facility Condition Assessments:** In the original IPAM proposal, IPAM would perform all facility condition assessments on 50 million sq. ft. of State-owned buildings. Within its BAFO, IPAM decreased its price but also proposed that facility managers (to be hired for the facility management consolidation process) **and not IPAM** would perform the condition assessments on the last 40 million sq. ft.

While a Department official indicated that less work would result in a lower price in the BAFO, it is not clear whether this was the case in the end. On February 4, 2005, the Department published in the Procurement Bulletin a sole source \$2.25 million contract for IPAM to perform facility condition assessments. According to a Department official, the Department made an internal decision not to contract out the facility management function. Therefore, someone was needed to perform the facility condition assessments for the remaining 40 million sq. ft. of State-owned space.

- **Lease Administration Services:** In the original IPAM proposal, IPAM proposed “...while not specifically requested by the State in the RFP, IPAM will offer to provide future lease administration services to the State on an ongoing basis once the new system is operational. Such an arrangement may be more cost-effective and would

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allow the State to be more efficient in engaging in its governmental and related legislative and regulatory responsibilities.”

The BAFO submitted by IPAM contained the exact language as the original proposal with the inclusion of “for an additional fee” at the end of the first sentence quoted above. When questioned on whether this “additional fee” was outside the purpose of the best and final process, Department officials indicated that the additional fee was not outside the process because the services were not part of the original RFP anyway. On January 20, 2005, the Department amended the contract with IPAM to reflect a change in compensation methodology to lease transaction support services. The original contract was increased by \$3.5 million for lease transaction services.

The auditors found no Department documentation in the procurement file to show that, after the significant changes were made in IPAM’s technical proposal, IPAM’s proposal remained superior to other proposers who were not afforded the opportunity to go through the best and final process.

Original Response: The Department disagreed with the finding and recommendation. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department agrees with the recommendation to clearly state in the purpose for requesting a best and final offer the specific sections that vendors are to revise. The Department has issued “Chief Procurement Officer (CPO) Notice #36” (attached), effective immediately, which requires that a BAFO request needs to clearly state which areas of the proposal the vendor is being asked to address and provides greater guidance on when and how BAFOs should be requested.

The State Purchasing Officer (SPO) must ensure that solicitation files contain documentation of the best and final process, as well as any other written documentation that shows how the contract was awarded to ensure fairness and transparency in the procurement process.

In addition, the Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify the CPO Notice and institutionalize this practice.

6. Follow the requirements set forth in the Illinois Procurement Code and administrative rules and publish instances where a vendor with the lowest price was not selected for the award of a contract.

Findings: The Department of Central Management Services (Department) failed to provide notification, in the Illinois Procurement Bulletin, that contracts were awarded to other than the lowest priced vendor.

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The Procurement Code requires evaluation and ranking by price for all professional and artistic contracts with annualized value that exceeds \$25,000. “Any chief procurement officer or State purchasing officer, but not their designees, may select an offeror other than the lowest bidder by price. In any case, when the contract exceeds the \$25,000 threshold and the lowest bidder is not selected, the chief procurement officer or the State purchasing officer shall forward together with the contract notice of who the low bidder was and a written decision as to why another was selected...[CMS] shall publish...notice of the chief procurement officer’s or State purchasing officer’s written decision.” (30 ILCS 500/35-30 (f))

In 44 percent (4 of 9) of the contracts the auditors reviewed, the Department awarded the contract to a vendor that was not the lowest priced proposer and did not publish this in the Procurement Bulletin. Those contracts, vendor and maximum contract amounts are provided in the table below:

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT ⁽¹⁾
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750
Procurement Assessment	McKinsey and Company, Inc.	07/18/03	14,720,000
Risk Assessment	Deloitte and Touche, LLP	11/10/03	386,825
Strategic Marketing	Team Services, LLC	01/23/04	360,000 ⁽²⁾
TOTAL:			\$ 40,410,575
⁽¹⁾ Amounts taken from CMS postings in the Illinois Procurement Bulletin.			
⁽²⁾ Calculated from contract terms.			

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department accepts this recommendation. The Department agrees that for all Professional and Artistic awards, the Procurement Code and Administrative Rules require publication of instances in which a vendor with the lowest price was not selected for the award. The Department will seek an interpretation from the Office of the Illinois Attorney General as to the definition of a Professional and Artistic contract and will follow that interpretation. Until that interpretation is received, the Department has issued “Chief Procurement Officer (CPO) Notice #39” (attached), effective immediately, which requires that for all competitive sealed proposals of any kind, whether designated P&A or a traditional RFP, a notice be posted to the Illinois Procurement Bulletin stating who the lowest bidder was and a written decision explaining why a higher priced vendor was selected.

In addition, the Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify the CPO Notice and institutionalize this practice.

7. Follow the direction of the Illinois Procurement Code and include information on subcontractors and the amounts to be paid to the subcontractors under the contracts.

Findings: The Department of Central Management Services (Department) failed to ensure that subcontractor information required under the Procurement Code was included in contracts awarded by the Department.

For professional and artistic contracts only, the contracts must state, “whether the services of a subcontractor will be used. The contract shall include the names and addresses of all subcontractors and the expected amount of money each will receive under the contract.” If a contractor adds or changes any subcontractors, CMS must receive the foregoing information in writing in a prompt manner. (30 ILCS 500/35-40)

In 44 percent (4 of 9) of the contracts the auditors reviewed, the Department failed to have information on subcontractors utilized by the selected vendor included in the contract. The Department estimated the value of these contracts to be approximately \$53 million. Those contracts, vendor and maximum contract amounts are provided in the table below:

CONTRACT PURPOSE	VENDOR	AWARD DATE	MAXIMUM CONTRACT AMOUNT ⁽¹⁾
Asset Management	IL Property Asset Management, LLC	12/29/03	\$ 24,943,750
IT Rationalization	BearingPoint, Inc./Accenture, LLP	02/20/04	21,500,000
Telecom Rationalization	Electronic Knowledge Interchange, Inc.	02/20/04	6,500,000
Software Review	BearingPoint, Inc.	07/25/03	198,000
TOTAL:			\$ 53,141,750
⁽¹⁾ Amounts taken from CMS postings in the Illinois Procurement Bulletin.			

Specifics on the lack of subcontractor information for the contracts questioned are summarized below:

- **Asset Management Contract:** The contract between IPAM, LLC (IPAM) and the Department filed with the Comptroller does not identify any of the subcontractors utilized by IPAM. Four subcontractors were identified in the IPAM proposal submitted to the Department. However, the amount to be paid to these subcontractors was not disclosed. Furthermore, during the auditors’ review of expenses reimbursed by the State to IPAM, the auditors found evidence that one of the IPAM subcontractors was utilizing subcontractors of their own to perform work.
- **IT Rationalization Contract:** The contracts between BearingPoint, Inc. (BearingPoint), Accenture, LLP (Accenture) and the Department do not identify any of the subcontractors to be utilized during the IT Rationalization project. The proposals do identify some subcontractors but not the amounts each would receive under the contract. A Department official collected information that shows

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BearingPoint subcontracted with eight firms on this project and paid them a total of \$3.2 million for hourly fees plus expenses. The highest paid subcontractor (total fees) was paid at a rate of \$215/hour for approximately 34 weeks, or \$293,618.

- **Telecom Rationalization:** The contract between Electronic Knowledge Interchange, Inc. (EKI) and the Department did not contain information on the use of any subcontractors. The proposal submitted by EKI did identify four subcontractors but with no expected value for compensation. In documentation supplied by the Department in February 2005, one of these three subcontractors **that had not been listed** in either the contract or the proposal had received \$3.2 million from EKI for subcontracting work. The same documentation showed that EKI had made \$1.3 million – or less than half of what the subcontractor had received.
- **Software Review:** In the contract between BearingPoint and the Department (in the section that allows subcontracting) BearingPoint does assert that it “is proposing to use an independent consultant to complete a portion of the required consulting services.”

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department accepts the recommendation. The Department agrees that for all Professional and Artistic awards, the Procurement Code and Administrative Rules require the contract to include information about and the expected amount of money each subcontractor will receive under the contract. The Department will seek an interpretation from the Office of the Illinois Attorney General as to the definition of a Professional and Artistic contract and will follow that interpretation. Until that interpretation is received, the Department has issued “Chief Procurement Officer (CPO) Notice #41” (attached), effective immediately, which requires that any competitive sealed proposals or P&A contracts must state whether the services of a subcontractor will be used and requires that the contract include the names and addresses of all subcontractors and the expected amount of money each will receive under the contract. If this information changes during the term of the contract, the Code requires the vendor to provide an update to the State.

In addition, the Department will work with the Legislature and Joint Committee on Administrative Rules to make the appropriate changes to the Procurement Code and Administrative Rules to codify the CPO Notice and institutionalize this practice.

8. **Take the necessary steps to increase timeliness in reducing a contract to writing. Additionally, review the practice of allowing vendors to initiate work on projects without a written agreement in place so as to protect State resources.**

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Findings: The Department of Central Management Services (Department) was not timely in executing contracts with vendors for contracts awarded. Additionally, the Department allowed vendors to initiate work on these projects without a written contract in place.

The Procurement Code dictates that “Whenever...a contract liability...exceeding \$10,000 is incurred by any State agency, a copy of the contract...shall be filed with the Comptroller within 15 days thereafter.” (30 ILCS 500/20-80 (b)) Further, for professional and artistic contracts, if the contract was not reduced to writing and filed with the Comptroller before the services were performed, the agency must file a written contract with the Comptroller along with an affidavit stating that “the services for which payment is being made were agreed to before commencement of the services and setting forth an explanation of why the contract was not reduced to writing before the services commenced.” (30 ILCS 500/20-80 (d))

In 100 percent (9 of 9) of the contracts the auditors reviewed, the Department allowed vendors to initiate work on the project without a formal written agreement in place. These contracts were estimated by the Department to have a maximum contract value of \$69 million with an FY04 financial commitment of \$32 million. The average length of time between **beginning work** on the contract and the **filing of the contract** with the Comptroller was **125 days** (with a range of 75 days to 234 days). The table below provides a breakdown for all nine contracts reviewed:

CONTRACT PURPOSE	AWARD DATE ⁽¹⁾	START DATE ⁽²⁾	FILING DATE ⁽³⁾	TIME BETWEEN AWARD AND FILING (DAYS)	TIME BETWEEN START AND FILING (DAYS)
Procurement Assessment	07/18/03	08/01/03	03/22/04	248	234
Risk Assessment	11/10/03	11/15/03	06/15/04	218	213
Asset Management	12/29/03	01/05/04	06/14/04	168	161
Strategic Marketing	01/23/04	02/13/04	06/25/04	154	133
Server Consolidation	07/25/03	10/03/03	12/17/03	145	75
Software Review	07/25/03	10/03/03	12/17/03	145	75
Fleet Management	02/09/04	02/17/04	05/06/04	87	79
IT Rationalization	02/20/04	03/01/04	05/17/04	87	77
Telecom Rationalization	02/20/04	03/01/04	05/17/04	87	77
AVERAGE:				149	125
⁽¹⁾ Date listed in the Procurement Bulletin announcing award. ⁽²⁾ Date listed in the contract as the beginning date of the contract. ⁽³⁾ Date provided by the Illinois Office of the Comptroller.					

The Department did file Late Filing Affidavits for Professional and Artistic contracts for 7 of 9 contracts the auditors reviewed. In the contract with Team Services, LLC (Team Services) for strategic marketing assistance, the vendor signed the contract on May 20, 2004 but the signature of the Department's Director was undated (this was one of three contracts reviewed that was signed by the Director but not dated). The contract was filed with the Comptroller on June 25, 2004.

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The affidavits asserted that services were “agreed to prior to commencement of services” but the long delays in reducing the agreements to writing indicates that services may not, in fact, be agreed to prior to commencement. While the Department states that vendors who initiate work prior to a written agreement do so at their own risk, allowing vendors to perform work without a written agreement has several adverse implications/effects for the State. For instance:

- **Compromises Oversight and Public Accountability** – A contract containing information, such as scope and nature of services to be provided, method and rate of compensation, and identifying the individuals that will be performing the work, is important to the General Assembly, unsuccessful proposers, and the general public. By not filing these contracts in a timely manner, large amounts of work can be performed and costs incurred before the public is made aware of the specifics of the contract.
- **Vendors Represent Themselves as Working for the State** – Team Services met with and contacted private business enterprises on behalf of the State for 3 months before signing an agreement with the State.
- **Utilization of State Resources** – Documentation in the Risk Assessment procurement files showed Deloitte & Touche, LLP (Deloitte & Touche) proposed using 4,100 hours of Illinois Office of Internal Audit manpower in addition to the 2,300 vendor hours to complete the Risk Assessment. It took the Department and Deloitte & Touche 213 days to come to a written agreement and file that agreement with the Comptroller after work commenced. Allowing a vendor to utilize State resources without a signed contract could result in costs never recouped by the State in the eventuality that the negotiations never result in a written agreement.
- **Delays May Increase the Likelihood that Proposed Elements Do Not Make It Into the Final Agreement** – IPAM, LLC (IPAM) proposed a Performance Guarantee in both its original and best and final offer where “10% of the following fees...will be rebated should the IPAM team not meet the savings goals of \$14 million in FY’04 and \$30 million in FY’05...” This proposed guarantee ultimately was not included in the final contract. In fact, IPAM did not hit the FY04 saving goal and thus professional fees paid in FY04 of \$8,758,370 were not reduced.
- **May Limit the Department’s Ability to Negotiate** – As stated in the Department’s “Changes to the CMS Procurement Organization & Processes FAQs”, awarding a contract before the terms of the contract are established reduces the Department’s negotiating leverage. If the Department cannot come to agreement with the vendor on contract terms, the Department must either restart the procurement process which could be a costly and impractical option from a time perspective in many cases, or enter into a contract with the winning vendor with less than desirable terms and conditions for the State.

Original Response: With one minor exception, the Department agreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department accepts the recommendation to take steps to increase timeliness in reducing a contract to writing. The Department agrees that it is not good business practice to allow vendors to initiate work on projects without a written agreement in place and will take the necessary steps to ensure agreements are in place prior to any initiation of work.

The Department has created standard contracts and revised Terms and Conditions to expedite the contract development and execution process. In addition, the Department will make agencies aware of the best practices outlined in the audit report and discourage the commencement of work prior to contracts being executed, except under extraordinary circumstances as allowed by law.

- 9. Require contractors to submit supporting documentation for expenses that will be reimbursed with State taxpayer dollars. Additionally, take the necessary steps to increase monitoring of the expenses submitted by the contractors and request refunds in instances when the contractor is reimbursed over the allowable amounts stated in contracts. Finally, do not enter into contracts where the State is responsible for expenses that would be in the normal course of doing business.**

Findings: The Department's process of monitoring vendor expenses was inadequate. For most contracts reviewed, expenses were paid with little or no review by the Department. In four contracts the Department received no detailed documentation to support reimbursement of expenses. For these contracts, the auditors were unable to substantiate any expenditures. In one contract where detailed support for expenses billed was provided by the vendor, the Department paid numerous questionable expenses. One of the contracts allowed for reimbursement of routine business expenses incurred by the contractor. The State Finance Act requires the Department to ensure that services specified on a voucher presented for payment are correct, authorized, and lawfully incurred. (30 ILCS 105/9.04)

Monitoring of Reimbursable Expenses to Contractors:

During FY04, the Department paid the seven contractors \$708,715 in reimbursable expenses. The table below details the expenses reimbursed by contract.

A lack of supporting documentation submitted by contractors and the Department's lack of adequate review led the auditors to question 77 percent (\$546,650 of \$708,715) of the total expenses paid to these contractors during FY04. The lack of review included allowing reimbursement over the State travel regulations for hotel rates in over 40 instances and over the per diem rate in over 23 instances. See the table below for a summary of the questioned payments.

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CONTRACT PURPOSE	AWARD DATE ⁽¹⁾	START DATE ⁽²⁾	FILING DATE ⁽³⁾	EXPENSES REIMBURSED IN FY04	EXPENSES QUESTIONED OR NOT SUPPORTED BY DETAILED DOCUMENTATION
IT Rationalization	02/20/04	03/01/04	05/17/04	\$ 341,959	\$ 341,959
Asset Management	12/29/03	01/05/04	06/14/04	177,501	43,615
Telecom Rationalization	02/20/04	03/01/04	05/17/04	106,987	106,987
Server Consolidation	07/25/03	10/03/03	12/17/03	32,265	32,265
Software Review	07/25/03	10/03/03	12/17/03	21,824	21,824
Fleet Management	02/09/04	02/17/04	05/06/04	17,922	0
Strategic Marketing	01/23/04	02/13/04	06/25/04	10,257	0
TOTAL:				\$ 708,715	\$ 546,650
⁽¹⁾ Date listed in the Procurement Bulletin announcing award. ⁽²⁾ Date listed in the contract as the beginning date of the contract. ⁽³⁾ Date provided by the Illinois Office of the Comptroller.					

The various contracts delineate what expenses are to be reimbursed by the State to the contractors. Specifically, the auditors found:

- **IT Rationalization, Telecom Rationalization, Server Consolidation, Software Review Contracts** – Contracts with vendors for these projects allowed for the reimbursement of expenses for travel. Travel expenses were to be reimbursed according to State travel regulations. During FY04, the Department reimbursed the vendors \$503,035 in expenses. However, there was **no** documentation attached to the billing invoices from the vendors to substantiate that the expenses actually occurred.

Invoiced expenses, totaling over \$54,000, for Server Consolidation and Software Review simply indicated an amount for “Expenses Incurred” without detailed support. Invoices submitted to the Department for expenses, totaling almost \$449,000, claimed under the IT and Telecom Rationalization contracts did have a summary categorical breakout (i.e., hotel, airfare, etc.) but again did not have detailed support.

- **Fleet Management and Strategic Marketing Contracts** – Contracts with vendors for these projects also restrict expenses to those amounts delineated in the State travel regulations. The auditors’ review of expenses submitted for reimbursement under these contracts, and the detailed supporting documentation, showed instances of vendors being reimbursed **over** the travel regulation rates.

Even though the Strategic Marketing contract was executed between the winning vendor and the Department, the Governor’s Office monitored the billings submitted by the vendor. After approval by the Governor’s Office, the FY04 billings were paid by the Department of Revenue under an interagency agreement with the Department of Central Management Services (the Department of Agriculture was to make payment to this vendor in FY05). Almost four months **after** the September 2004 payment was made, but two days **before** meeting with auditors on this contract, the Governor’s

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Office asked for reimbursement of \$1,707.33 for payments that were made to the vendor for expenses that exceeded State travel regulations.

- **Asset Management Contract** – The Department awarded this contract in December 2003 to an entity that had not legally existed as a limited liability corporation prior to January 2004. In this contract the Department, in addition to the \$25 million in service fees for the vendor, agreed to pay the vendor reimbursable amounts, according to State travel regulations, identified as fixed monthly amounts and set forth...in its reimbursable expense reports.

During FY04, the Department reimbursed the vendor \$177,501 for expenses incurred from January through June 2004 – even though the executed contract was not filed with the Comptroller until June 14, 2004. All six months of expenses were submitted to the Department in early August 2004. The payments were made to the vendor for these expenses by the State on August 30, 2004.

A Department official explained that the contract says that the State “can” request backup for expenses but that the vendor is not required to submit it. The official, who is responsible for monitoring the contract with this vendor, stated that the Department can check randomly to see if the vendor is following the State’s travel guidelines, and that they do not need to check and look at all expense reports. However, the auditors’ review of the supporting detail for the expense reports found no evidence of Department review. The vendor was reimbursed for **all** of the expenses submitted. The auditors’ review found:

- A \$495.05 reimbursement for a “**Celebration Dinner**” for six vendor staff on January 19, 2004 – 22 days after the contract award was announced by the Department.
 - Business meals where supporting documentation showed the reimbursement included Department officials who were on travel status. These Department officials also claimed, and were paid, full per diem rates on travel vouchers for the days when the vendor paid for meals. The Department officials were staff that monitor the work performed under the Asset Management contract.
 - Parking reimbursed for the United Center on February 17, 2004. The Chicago Bulls had a home basketball game on that date. The detailed support indicated two names on the parking receipt, a vendor employee and the Department official responsible for monitoring the contract.
 - A March 2004 reimbursement for a cellular telephone bill for a vendor employee in the amount of \$114.68. The statement shows the telephone is billed for the City of Chicago Department of Procurement Services.

While not submitted for reimbursement, documentation showed a \$103 business meal between a vendor official and a Department official on December 15, 2003 – 2 weeks **prior** to the Department announcing the award for the Asset Management project. This

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Department official was a member of the selection committee for this procurement, and is responsible for reviewing and approving payments to the vendor.

While the contract allows for business expenses to be reimbursed, the Department should ensure that State monies do not go for this vendor to operate a business venture. Additional questioned uses of State funds to reimburse for expenses under the Asset Management contract are detailed in the following exhibit.

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT						
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT OTHER
1.	12/18/03	Subcontractor staff charged travel 10 days <i>prior to award</i> of contract to IPAM	\$ 1,769.56		✓	
12/29/03 IPAM AWARDED ENGAGEMENT						
2.	12/30/03	2 subcontractor staff charged travel to Springfield for MAPPS (Magellan Assessment and Project Planning System) presentation to GOMB – the day after award of contract but <i>prior to start date</i> of 1/5/04	1,102.01		✓	
3.	01/07/04	Messenger service for package to company that was dropped from IPAM joint venture (also 1/9/04)	12.80			✓
01/05/04 IPAM BEGINS WORK (NO CONTRACT SIGNED)						
4.	01/12/04	In-house orientation session meals in January for subcontractor staff (also 1/13/04)	2,306.00	✓		
5.	01/12/04	Team building games	17.00			✓
01/15/04 IPAM ARTICLES OF ORGANIZATION FILED WITH SECRETARY OF STATE						
6.	01/19/04	"Celebration Dinner" for 6 IPAM staff	495.05	✓		
7.	01/22/04	12 Executive Elite 3 hands-free telephone headsets	1,992.24			✓
8.	01/28/04	Business letterhead with no IPAM indication on the invoice	851.65			✓
9.	01/30/04	Airfare for subcontractor to fly guest to Chicago for the weekend	278.30		✓	
10.	FEB. 04	Parking in downtown Chicago garages for Chicago-based staff (also March, April, May and June)	1,420.00		✓	
11.	FEB. 04	Cab fare for Chicago-based IPAM staff to home or IPAM offices (also March, April, May and June)	225.00		✓	
12.	FEB. 04	Cell phones for subcontractor billed to the subcontractor address, with names removed and "IPAM" written in (also March and April)	2,516.83			✓
13.	FEB. 04	Computer equipment, software, and color printing that was paid for by IPAM but shipped to one of its subcontractors' offices and not IPAM, even though located in the same building in Chicago (also March)	1,313.41			✓
14.	FEB. 04	Subcontractor rental of 7 sport utility vehicles for staff to drive during all of February and March 2004; total miles driven for 7 vehicles during the 2 months was 1,923	8,573.83			✓
15.	FEB. 04	Other leased vehicles for IPAM subcontractor during February and March 2004 – generally sport utility vehicles – including subcontractors of the subcontractor	3,048.83			✓
16.	02/03/04	Dinner in Springfield between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	192.34	✓		
17.	02/04/04	Business lunch that included CMS, GOMB and CDB	100.38	✓		
18.	02/04/04	Food receipts and hotel room service charges for a subcontractor employee in 1 day	138.33		✓	
19.	02/06/04	Cell phone charges for subcontractor where bill had 1 Illinois number on the detail	244.30			✓
20.	02/08/04	Alcohol charged to the State not part of any meal	54.98	✓		
21.	02/19/04	Parking at United Center for Chicago Bulls game; receipt shows names of IPAM employee and CMS employee	13.00		✓	
22.	02/17/04	Maps of Illinois purchased by IPAM subcontractor on 2/17/04	27.26			✓

QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT						
#	DATE	PURPOSE	AMOUNT	MEALS/BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT OTHER
23.	02/19/04	Business meals for IPAM to meet with its attorneys on contract negotiation (also 2/24/04 and 4/8/04) which was over 3 months after contract work began	\$ 90.16	✓		
24.	02/26/04	Mounting boards shipped to Mesirow Stein Real Estate but billed to IPAM (also 2/27/04)	1,000.50			✓
25.	02/27/04	Business meals with one of the losing proposers from the RFP (also 3/2/04)	103.97	✓		
26.	03/06/04	Ice bucket and tongs	32.01			✓
27.	03/09/04	Business meal in Springfield for contract discussions between 1 IPAM employee and 2 CMS staff; CMS staff claimed full per diem on travel vouchers	209.29	✓		
28.	03/14/04	Cell phone charges for IPAM employee, yet statement shows bill is for City of Chicago Department of Procurement Services (also 4/13/04 and 5/13/04)	344.04			✓
29.	03/18/04	Research article from Harvard Business School Publishing	18.01			✓
30.	03/19/04	Gas for out-of-state subcontractor to meet at Maximus headquarters in Columbia, MD	24.56		✓	
31.	03/23/04	Business meal in Springfield for review for audit meeting for an IPAM employee and a CMS employee; CMS employee claimed full per diem on travel voucher	138.63	✓		
32.	03/23/04	Business meal in Springfield for agency review meeting for 4 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	202.15	✓		
33.	03/30/04	Business meal in Springfield to review agency concerns for 4 IPAM staff and 3 CMS staff; CMS staff claimed full per diem on travel voucher	187.21	✓		
34.	03/30/04	Business meal in Springfield with no indication of the purpose for 2 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	39.96	✓		
35.	April 04	Messenger service from Mesirow Stein Real Estate to IPAM offices (also May)	99.74			✓
36.	04/06/04	Business meal in Springfield for an agency meeting for 2 IPAM staff and 2 CMS staff; CMS employees claimed full per diem on travel voucher	225.69	✓		
37.	04/06/04	Business entertainment at Springfield bar for an agency meeting for 4 IPAM staff and 2 CMS staff	52.50	✓		
38.	04/06/04	No-show charge at Springfield hotel for IPAM employee on 4/6/04	98.99		✓	
39.	04/13/04	Business meal in Springfield for procurement presentation review for 3 IPAM staff and 1 CMS employee; CMS employee claimed full per diem on travel voucher	169.00	✓		
40.	04/23/04	Personal use of rental car, billed by subcontractor, even though it was disclosed on the supporting documentation that the usage was personal	100.00		✓	
41.	04/27/04	Breakfast and lunch for team meetings and consolidation workshop with clients at IPAM offices (also 4/28/04)	609.09	✓		
42.	May 04	Meals in Chicago during May for Chicago-based staff and subcontractors and CMS personnel for various reasons	201.32	✓		
43.	05/04/04	Lease of automobiles for 2 Chicago-based staff of an IPAM subcontractor billed in June 2004 (also 5/7/04)	192.88			✓
44.	05/13/04	Food charged to hotel bill when subcontractor was already reimbursed for the State's per diem rate (also 5/20/04)	12.48	✓		
45.	05/20/04	Food for lunch meeting for IPAM employees in Chicago to discuss energy management	99.14	✓		
46.	05/20/04	Tip for delivery associated with lunch on 5/20/04	5.00	✓		

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QUESTIONED EXPENDITURES REIMBURSED UNDER THE ASSET MANAGEMENT CONTRACT						
#	DATE	PURPOSE	AMOUNT	MEALS / BUSINESS ENTERTAINMENT	TRAVEL	EQUIPMENT OTHER
47.	05/27/04	Breakfast refreshments for Chicago-based IPAM staff for meeting with subcontractors	\$ 45.00	✓		
48.	05/27/04	Bulk candy for meeting with 2 CMS employees in Chicago	11.24	✓		
49.	06/01/04	Dinner for Chicago-based IPAM staff in Chicago due to working late because of budget work; receipt shows dinner was at 7:23 p.m.	50.94	✓		
50.	06/02/04	Parking for IPAM employee in downtown Chicago on same day he drove to Springfield to deliver IPAM budget to CMS	25.00		✓	
51.	06/08/04	Business meal in Springfield between IPAM employee and CMS employee to discuss legal issues; IPAM employee already claimed and was reimbursed for the State per diem rate	61.18	✓		
52.	06/10/04	Lunch in Chicago for 3 IPAM staff and 1 CMS employee	53.38	✓		
06/14/04 IPAM CONTRACT FILED WITH COMPTROLLER						
53.	06/16/04	Early departure charge for hotel for subcontractor on travel status	25.00		✓	
8/30/04 PAYMENT DATE FOR IPAM EXPENSES						
			TOTAL QUESTIONED:	\$31,221.16		

Other Monitoring Deficiencies: In other testing of 25 contractual agreements the auditors noted the following deficiencies:

- Two payments on one contractual agreement selected for testing were not in accordance with the terms of the contract. Payments were made for services in excess of the contractually agreed rate by \$2,665.
- One billing on a contractual agreement for \$4,520 did not detail labor hours and hourly rates as required by the contract.
- One payment on a contractual agreement for \$17,086 did not agree with a rate schedule included in the contract. The auditors were unable to determine the amounts that should have been billed based on the lack of detail provided with the billing.
- Two contractual agreements contained amendments that were not signed until after the intended effective date of the amendment.
- Two contractual agreements were not signed until after services began and the late filing affidavit was not prepared.
- Two contractual agreements were missing a form or certification required by SAMS Procedure 15.20.20 or 15.20.30.

Original Response: With one minor exception, the Department agreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation to require contractors to submit supporting documentation for expense reimbursements. The

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Department also accepts the recommendation to increase the monitoring of expenses submitted by vendors and to request refunds in instances where the contractor is reimbursed over the allowable amounts stated in the contracts. The Department commits to requiring specific language in vendor contracts requiring supporting documentation.

On April 11, the Department requested that the internal auditors review all expenses of the vendors listed in the finding, and required IPAM to put funds in escrow to safeguard all questionable reimbursements.

The Department has already put in place a more stringent process for monitoring expense reimbursements by requiring Deputy Director approval for all reimbursements and will also require approval by the Chief Fiscal Officer. The Department also commits to review its monitoring process and implement any changes that it feels necessary to ensure that vendor expense reimbursements are handled appropriately.

10. Take the necessary steps to ensure that amounts billed to State agencies for savings initiatives are supported by sound methodologies so that agencies are not paying for savings that are not realized.

Findings: The Department of Central Management Services (Department) failed to adequately determine the amount of savings it expected State agencies to realize when billing for savings initiatives. This resulted in a majority of State agencies being over billed – i.e., they were billed more for savings initiatives than Department documentation showed the agencies had realized in savings.

A change to the Department's Civil Administrative Code, effective June 20, 2003, gave the Department the responsibility for recommending to the Governor efficiency initiatives to reorganize, restructure, and reengineer the business processes of the State. The Department was granted the power and duty to, in part, establish the amount of cost savings to be realized by State agencies from implementing the efficiency initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund. (20 ILCS 405/405-292)

During FY04 the Department billed State agencies \$137 million for efficiency initiatives for: procurement, information technology, vehicle fleet management, facilities management consolidation, internal audit consolidation, and legal research consolidation. The table following indicates, by initiative, the number of agencies billed and the total billed:

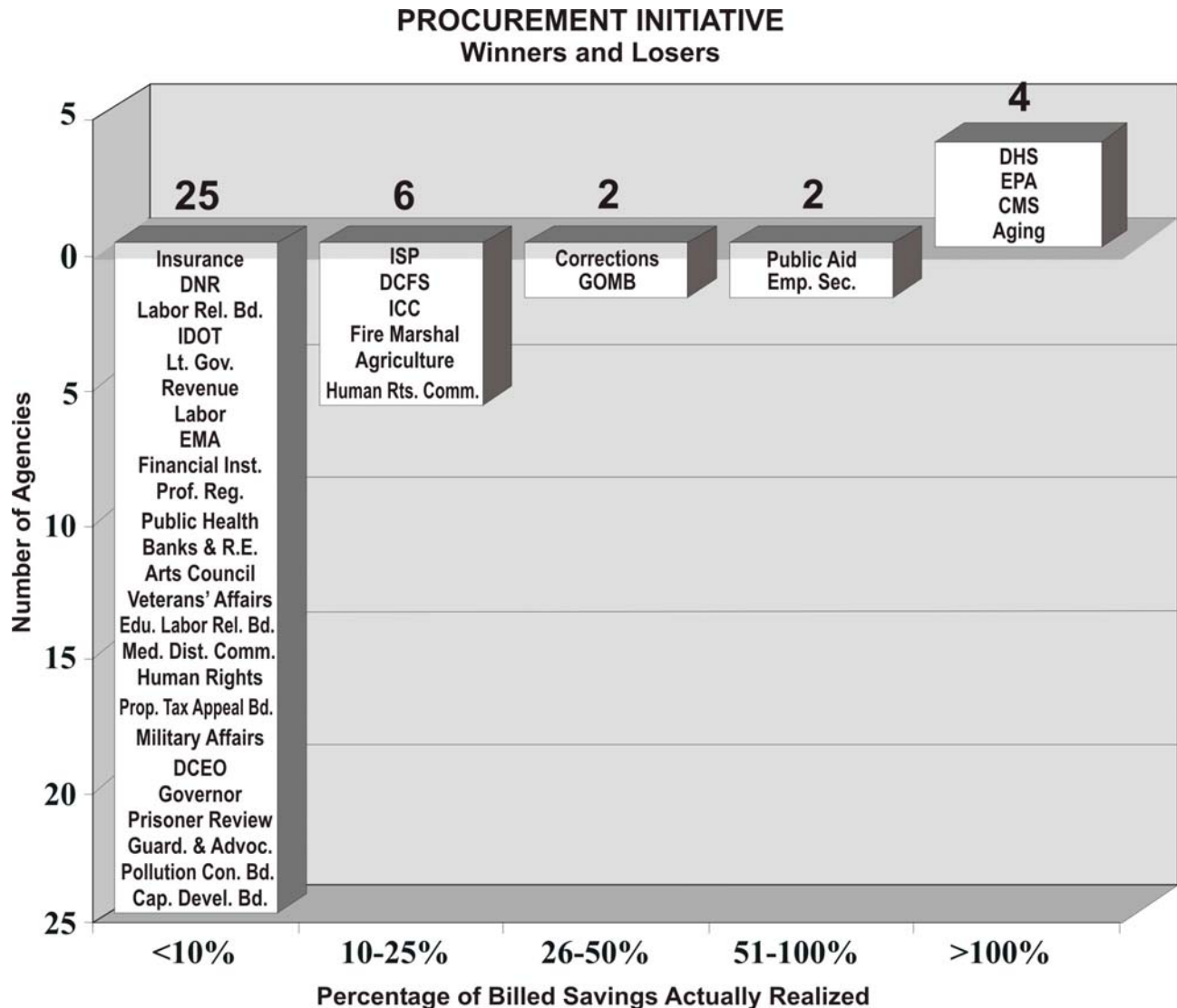
INITIATIVE	# AGENCIES BILLED	TOTAL AMOUNT BILLED
Procurement Efficiency	38	\$ 88,613,520.00
Information Technology Consolidation	37	32,347,055.00
Facilities Management Consolidation	11	8,697,686.00
Vehicle Fleet Management	28	3,896,153.00
Internal Audit Consolidation	3	3,083,254.69
Legal Research Consolidation	6	327,154.44
	TOTAL:	\$ 136,964,823.13

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Not all agencies were billed for all initiatives. For example, Historic Preservation was billed for facilities management consolidation but not procurement efficiency, information technology or vehicle fleet management. In fact, documentation provided by the Department in September 2004, listed 13 agencies that should have been billed \$5.6 million for procurement, information technology and vehicle fleet management initiatives but were never billed. According to Department officials, the Governor's Office of Management and Budget (GOMB) was very involved in the billing process and GOMB made the decision as to what agencies were billed and what agencies were not billed.

In November 2004, the Department provided documentation on the "Winners and Losers" from the procurement efficiency initiative. Department documentation showed that the Illinois Student Assistance Commission (ISAC) **should have been billed** \$728,600 for the procurement efficiency initiative, and according to the Department, ISAC saved \$1,585,181 from the procurement efficiency initiative in FY04.

Conversely, the Department of Transportation (IDOT) **was billed** \$17,061,200 during FY04 but Department documentation showed that IDOT **only saved** \$1,232,179 from the procurement efficiency initiative. Consequently, IDOT paid \$15.8 million more into the Efficiency Initiatives Revolving Fund than realized savings. Likewise, the Department of Revenue (DOR) **was billed** \$4,321,900 during FY04 but **only saved** \$238,302 from the procurement efficiency initiative. In total, Department documentation showed that there were 4 "Winners" and 35 "Losers" from the efforts of the procurement efficiency initiative. The chart following summarizes the percentage of billed savings actually realized by the State agencies:



Source: OAG summary of CMS document.

To determine the savings levels the Department utilized the following methodologies:

- **Facilities Management Consolidation:** In May 2004, the Department sent out \$8.7 million in billings to eleven agencies for the facilities management consolidation initiative. The methodology used to determine this amount was a FY03 (Spring 2003) survey of State agencies that showed funded vacant headcount in the facilities management area.

Given that billings were sent out a year after the surveys were completed, and the fact that as of May 2004 facilities management had not yet been consolidated, this may have not been the most appropriate methodology to bill State agencies. For instance, the Department of Military Affairs (DMA) was billed \$772,580 for 17 vacant positions according to the FY03 survey. However, by the time the billing came in May 2004, DMA had filled several of the vacancies and only paid \$222,022 for parts of the year where the positions

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were vacant. In another instance, an official from the Department of Veterans' Affairs (DVA) questioned GOMB whether the six funded vacant headcount positions it was billed \$363,944 for were true facilities management personnel, noting that some positions had been filled. The billing was not changed and DVA paid the entire amount.

- **Information Technology Initiative:** While statute grants the Department the authority to determine savings to be realized by State agencies, this was not the case for the IT initiative. According to Department officials, GOMB had Accenture, LLP perform a two-week review in May 2003 of IT spending data to determine an amount of statewide savings that would be expected from the IT initiatives undertaken by the Department. This figure, \$35 million, was used by GOMB in determining how much to bill each agency for this initiative. Documentation on this two-week project does not total the \$35 million figure used to bill State agencies.

The Department questioned the GOMB methodology in a September 15, 2003 memorandum due to: (1) GOMB's use of a methodology that was not the best indicator of total IT spending; (2) several agencies' savings billings would be more than 15 percent of their total IT spending budget; and (3) \$750,000 in savings were attributable to agencies no longer in the consolidation process. GOMB utilized the same methodology, did not adjust billings for agencies based on Department concerns, and spread the \$750,000 in billings among other State agencies when IT Consolidation billings went to agencies on September 19, 2003.

- **Vehicle Fleet Management Initiative:** The Department's methodology for calculating savings from the reduction of agency vehicles resulted in agencies being overcharged for savings estimates. In one instance, an agency was billed more in savings from fleet reduction than the agency was appropriated in operation of automobile appropriations.

The Department used a weighted average in determining the amount of savings an agency would realize for the disposal of a vehicle. This weighted average was for all categories of vehicle – passenger car, truck, bus, snowplow, etc. Using the weighted average, which amounted to \$3,044 for every vehicle disposed of regardless of vehicle type, resulted in agencies being over billed if its vehicles were not the high end of maintenance cost (dump trucks and snow trucks, etc.). Department calculations showed that an agency would expect to save \$1,700 for every passenger car reduced from its fleet.

Using this methodology the Property Tax Appeal Board was billed \$13,211 during FY04 for vehicle fleet management – when the total appropriations for the Property Tax Appeal Board for operation of automobiles was \$11,300.

- **Procurement Efficiency Initiative:** According to a Department official, GOMB approached McKinsey and Company, Inc. to assist in gathering data to help develop the State's savings targets. The procurement initiative was one of those projects. The vendor performed pro bono diagnostic work in March 2003 and had about 2-3 weeks to produce the numbers.

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The savings goal stated in the RFP for the procurement initiative was \$109 million. According to a Department official, this figure was developed by the vendor looking at FY02 Comptroller data on State spending in several areas and comparing that to vendor information on past practices and market rates for goods and services. However, the preliminary savings documentation provided by the Department that this vendor developed did not total to \$109 million.

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation to take the necessary steps to ensure that amounts billed to State agencies for savings initiatives are supported by sound methodologies.

In Fiscal Year 2005, because the Department had actual data regarding Fiscal Year 2004 savings, its anticipated savings information to the agencies is more robust, and that information is reflected in Efficiency Initiative Revolving Fund (EIRF) billings for Fiscal Year 2005, and will be reflected in such billing for Fiscal Year 2006. The Department will work with the Agencies receiving any EIRF billings to communicate fully the methodology used to anticipate savings.

The Department has created an agency-wide validation committee and will improve efforts to consistently validate savings and quantify appropriate billings in cooperation with the Governor's Office of Management and Budget.

11. Develop and maintain adequate supporting documentation to support the validation of savings billed to agencies and captured by vendors.

Findings: The Department of Central Management Services (Department) did not maintain adequate documentation to support the validation of many of the savings which the Department attributes to its various efficiency initiatives. Furthermore, savings goals stated in the Request for Proposals (RFP), vendor proposals, and/or contract were not always realized or documented.

The Department awarded over \$69 million during FY04 to outside vendors for contracts intended to achieve savings as part of the efficiency initiatives. In some cases contracts were awarded based on the vendors' ability to show they could meet savings goals stated in the RFP, vendor proposal and/or contract. Where savings are a specific goal, the Department should ensure it has in place a valid and reliable system to track savings achieved by the vendors. The table below illustrates the contracts sampled that specified savings goals, by fiscal year, along with the dollar amounts.

CONTRACT PURPOSE	VENDOR	MAXIMUM CONTRACT AMOUNT ⁽¹⁾	SAVINGS GOAL (in millions \$)			SAVINGS GOAL STATED IN:				
			FY 04	FY 05	FY 06	PROCUREMENT BUSINESS CASE	SOLICITATION OVERVIEW	RFP	VENDOR PROPOSAL	CONTRACT
Procurement Assessment	McKinsey	\$ 14,720,000	109.0	200.0				✓	✓	✓ ⁽²⁾
Server Consolidation	BearingPoint	195,000	7.0	7.0	7.0	✓ ⁽³⁾				
Software Review	BearingPoint	198,000	1.5	1.5	1.5	✓ ⁽³⁾				
IT Rationalization	BearingPoint Accenture	21,500,000	25.0	100.0	100.0	✓	✓	✓	✓	
Telecom Rationalization	EKI	6,500,000	5.0		30.0	✓		✓	✓	
Asset Management	IPAM	24,943,750	14.0	30.0		✓		✓	✓	
Fleet Management	Maximus	214,000	1.0	2.6				✓	✓	✓
TOTAL:		\$ 68,270,750	162.5	341.1	138.5					
⁽¹⁾ Amounts taken from CMS postings in the Illinois Procurement Bulletin. ⁽²⁾ If McKinsey has not satisfactorily completed services, the CMS Director may elect not to pay vendor. ⁽³⁾ Projection made by Accenture.										

Procurement Efficiency Initiatives

The documentation used by the Department to support the validation in savings captured by McKinsey for procurement in FY04 raised concerns. Agencies were billed \$88.6 million in September 2003 for Procurement Efficiency Initiatives. A goal stated in the Procurement Assessment RFP issued in May 2003 was that savings of approximately \$109 million could be achieved during FY04 and \$200 million in FY05. The Performance Guarantee in the McKinsey contract states “McKinsey and CMS agree that CMS may, in the sole and absolute discretion of the Director, exercise the performance guarantee as provided herein. CMS may withhold full or partial payment from an unapproved invoice if CMS determines that McKinsey has not satisfactorily completed services at least equal to the ratio that the percentage of payment bears to the percentage of services required for the successful completion of the contract as determined by CMS in its sole and absolute discretion....”

Over 50 percent of the procurement initiatives savings, or \$58.8 million, were related to six fee-for-service billings at DHS (such as submitting back claims, correcting and resubmitting rejected Medicaid claims, etc.). According to DHS personnel, many of these activities had been initiated by DHS years ago; however, more intense efforts began in February of 2004 with the help of McKinsey consultants.

Based on information provided by DHS, a \$2.5 million in “validated” FY04 savings for one of the six DHS initiatives (“Mental Health Error Correction”) was a future years’ savings and not savings collected in FY04. Furthermore, on two of the other five DHS initiatives, over \$2.8 million in “validated” FY04 savings were not actually collected in FY04. Of \$1.1 million the Department listed as validated FY04 savings (for the Developmental Disabilities and Division of Rehabilitation Services waiver initiative), DHS reported that only \$839,028

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was actually collected in FY04. Of the \$19.9 million the Department listed as validated FY04 savings (for the Family Case Management and Targeted Intensive Prenatal Case Management initiative), DHS reported that only \$17.3 million was actually collected in FY04.

Other issues related to the procurement initiative were:

- On at least 18 of 51 (35 percent) of the Savings Tracking Forms, there were no McKinsey employees listed as “Team Members” assisting in the initiative. For example, on a contract renewal of a copier lease at DHS, \$1.3 million in savings are claimed and no McKinsey staff were listed as a team member for this initiative. Furthermore, based on the Savings Tracking Form provided by the Department, it was the copier vendor that approached DHS with an offer of significant savings on the copier lease contract renewal. The Department acknowledged that the copier vendor initiated the idea but felt that the work of the procurement initiative was a significant factor in this vendor making the offer to the State. The Department provided e-mails showing that McKinsey staff were involved after the initial proposal from the vendor was received and that McKinsey was assisting the State with a new statewide RFP for copier maintenance in late October 2003.
- On the Paper – Envelope RFP initiative, \$133,000 in validated savings was attributable to canceling an envelope order for the Illinois Commission on Intergovernmental Cooperation, which had been abolished. The Department said that the envelopes would have been ordered and wasted, since the agency no longer existed. However, in response to a follow-up question from the auditors, the Department stated “we have discovered that the large database download into a spreadsheet was linked to a lookup table that erroneously allowed for agencies to be separated from the actual spend on envelopes. In fact, through this exercise we discovered that the amount attributed to the Illinois Commission on Intergovernmental Coop should have been assigned to a different agency. We have updated our records accordingly.”

Information Technology Consolidation

The Department also lacked documentation to support savings from the IT initiative. Agencies were billed \$32.3 million in September 2003 for Information Technology Consolidation Initiatives. Although the statute indicates savings should be achieved from the efficiency initiative projects, Department personnel indicated they did not calculate savings (for the \$32.3 million billed to agencies); they were trying to get the agencies to spend less on IT.

According to a discussion document prepared by Accenture in September 2004, reductions from FY03 to FY04 can be attributed to:

- employee reductions/funded vacant headcount,
- amounts billed to the agencies for IT consolidation initiatives, and
- contract renegotiations/spending governance.

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However, no verifiable savings documentation was provided to support these reductions.

The Department entered into four contracts with IT vendors totaling \$28.4 million. Department documentation on Server Consolidation showed that Accenture estimated up to \$7 million recurring savings. However, on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04. Documentation on the Software Review project showed that Accenture estimated up to \$1.5 million recurring savings. Again on January 20, 2005, Department personnel could not provide documentation and could not attribute savings to this contract in FY04. IT Rationalization was to save \$25 million in FY04. Department personnel stated on February 2, 2005, savings could not be attributable to this contract. Telecommunications Services Rationalization was to save \$5 million in FY04, with annualized savings of \$30 million being attained by the third year. Department personnel stated on February 2, 2005, savings could not be attributable to this contract. On April 6, 2005, after the auditors' exit conference, the Department provided a one-page document on information technology savings. However, the information was not attributable to any individual contract. Additionally, two caveats were included on the document stating: "Some categories are still being reviewed by BCCS and could be subject to change"; and "There is some crossover of IT categories with McKinsey savings validated under the procurement initiative; these amounts will not be billed again."

Facilities Management Consolidation

The Department also failed to maintain adequate documentation to support that the savings goal was reached on the Facilities Management initiative. Agencies were billed \$8.7 million in May 2004 for Facilities Management Consolidation Initiatives. A goal stated in the Asset Management RFP issued in September 2003 was to achieve a minimum of \$14 million in budgetary savings during FY04 with an additional \$30 million in FY05 through the consolidation effort.

In December 2004, Department personnel stated that IPAM (the vendor selected for this contract) had not met the \$14 million savings goal, but instead, had achieved approximately \$7 million in savings. According to the Department, these savings can be attributed to:

- \$6,000,000 – Funded vacant headcount **billed** to agencies in May 2004. However, the positions identified as vacant were the result of a survey of State agencies, in Spring 2003, not IPAM work on organizational structure. All of these funded positions were vacant prior to IPAM receiving the Asset Management contract announced December 29, 2003.
- \$500,000 – resulting from an energy audit. However, the energy audit was conducted by the University of Illinois at Chicago at the request of CMS and McKinsey, not IPAM.
- \$500,000 – resulting from the cancellation of leases. The Department provided a report of leases terminated between January 1, 2004 and June 30, 2004 totaling \$401,397. The auditors could not determine from the information provided that they

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considered the offsetting costs of placing agencies in another location. In February 2005, the Department provided documentation to show that only \$185,159 had been saved in FY04 from terminated leases.

Fleet Management Initiative

The Department was unable to provide any information or documentation to support the savings goal of \$1 million in FY04 and \$2.6 million in FY05.

Conclusion

Per statute, it is the Department's responsibility to "establish the amount of cost savings to be realized by State agencies from implementing the efficiency

FISCAL YEAR 2004 DISBURSEMENTS	
Transferred to General Revenue Fund	\$ 58.9 million
Payments to Major Efficiency Contractors	30.0 million
Other Disbursements	7.3 million
TOTAL: \$ 96.2 million	

initiatives, which shall be paid to the Department for deposit into the Efficiency Initiatives Revolving Fund" (20 ILCS 405/405-292). In FY04, agencies paid **\$129.7 million** into the Efficiency Initiatives Revolving Fund for cost savings to be realized from the procurement, facilities management, fleet management, information technology and other initiatives. While these are considered reported as savings by the Department, \$96.2 million was paid out of the Fund in FY04 (see inset). Since the \$96.2 million in disbursements made from the Efficiency Initiatives Revolving Fund in FY04 were actually spent to pay contractors and disbursements, or transferred to the General Revenue Fund where they were used to pay other expenses of the State, it is not clear how much of the saving claimed by the Department represents actual savings for the State. Additionally, the auditors could not find evidence to support that any of the vendor's fees were affected by its failure to achieve and/or document its achievement of stated savings goals.

Original Response: The Department disagreed with the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation to develop and maintain adequate supporting documentation to support validation of savings and spending reductions billed to agencies and captured by vendors and the administration.

The Department has created an agency-wide validation committee to develop and maintain consistent documentation across all initiatives to support statewide initiative savings and spending reductions achieved through consolidation and center-led governance. An advisory council will oversee the methodology, definition and calculation of savings and spending reductions. Improved contract monitoring guidelines will augment the Department's documentation regarding the performance and milestones of vendors associated with the efficiency initiatives.

12. Continue to fully implement the nine management audit recommendations contained in the February 2004 Space Utilization Management Audit that were either not implemented or were partially implemented.

Findings: In February 2004, the Office of the Auditor General released a management audit of the Department of Central Management Services' Administration of the State's Space Utilization Program. The audit contained nine recommendations to improve the performance and operation of the Department of Central Management Services (Department) to effectively manage the State's real property. As part of this compliance audit, auditors followed-up, in September 2004, on the status of the nine recommendations contained in the management audit. While the Department has addressed issues in the recommendations, none of the nine recommendations were fully implemented.

The Department awarded a \$24.9 million three-year contract for professional asset management services to Illinois Property Asset Management (IPAM) on December 29, 2003. In the Department response to the management audit it indicated that many of the activities to address the recommendations would be performed by IPAM. An IPAM representative stated, at a Legislative Audit Commission meeting in March 2004, that IPAM would make substantial progress by the end of FY04 on all nine recommendations in the management audit. As of August 30, 2004, this contractor received over \$8.9 million in fees for consulting services and reimbursable expenses under the contract. Below is a summary of the nine recommendations.

The following recommendation has not been implemented by the Department:

- **Strategic Planning (Recommendation #4):** *The Department should take steps to complete the objectives set forth to accomplish the space utilization program. Additionally, the Department should develop a comprehensive space utilization strategic plan.*

The following eight recommendations have been partially implemented by the Department:

- **Agency Reporting of Real Property to CMS (Recommendation #1):** The Department should take the steps to require agencies to submit the required information on State-owned real property on the Annual Real Property Utilization Reports. While the Department has initiated the process, through IPAM, of analyzing and organizing the State's real estate portfolio, this project is currently not completed. IPAM, as of September 21, 2004, has developed a draft of a revised Form A that addresses the concerns raised in the recommendation. However, this new Form has not been submitted to the Department for approval nor is it being used by agencies to report information on real property. The Department reported it planned to propose a change in the Administrative Code to address the differences in the reporting dates for the Annual Real Property Utilization Report during the first quarter of calendar 2005. However, no documentation was provided to auditors relative to this plan.

- **Accuracy of the Master Record (Recommendation #2):** The Department should conduct a statewide inventory of real property to develop an accurate accounting of land and buildings owned by the State. The Department, through IPAM, is in the process of conducting a statewide inventory of real property that includes detailed property condition assessments for each property owned by the State. As of September 2004, IPAM was in its 3rd week of conducting assessments on the estimated 40 million square feet of remaining State-owned property. While it is the Department's position that wetland and flood mitigation lands should be reported on the Annual Real Property Utilization Report, the Department did not provide documentation to show it had instructed agencies with this type of property how to report on the State asset.
- **Automation of the Master Record (Recommendation #3):** The Department should once again look into the possibility of automating the master record of State-owned real property with a system that is capable of producing management reports to allow the State to effectively manage land and building assets. IPAM is developing databases for the Department to use in the management of the space utilization program. As of September 21, 2004 these databases were not yet completed. IPAM officials reported that management reports could be developed once all the information in the databases is complete and accurate. A master record of State-owned property will be one of the reports generated.
- **State-Owned Space Verification (Recommendation #5):** The Department should maintain documentation to show the Department verified whether State-owned space existed prior to leasing space from third parties. For leases executed from March 2004 through September 2004, a Department official noted the old process of checking with the Real Property Division was still in place. The auditors' testing of this process showed that in 6 of 7 leases tested (the 7th lease did not have a space request), the Department did check for excess space in State-owned facilities before leasing space from outside lessors. According to the Department, there was no excess space at State-owned facilities in any of the locations – from Cook County to Carbondale.
- **Monitoring of Space in State-Owned Buildings (Recommendation #6):** The Department should: develop formal policies and procedures for systematically reviewing space in buildings owned or controlled by the Department which would include reporting excess space to divisions responsible for leasing space for State agencies. As of September 2004, the Department could not provide auditors with any formal policies and procedures recommended in this finding. IPAM officials noted that they were following up with agencies to find the best use for unused space. However, this process is only partially completed.
- **Use of Unoccupied Space in State-Owned Facilities (Recommendation #7):** The Department should conduct a detailed examination of all real property owned or controlled by the State and determine what property is excess. The Department, through IPAM activities, has partially completed an examination of real property.

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Most of the DHS facilities have not been assessed as of September 2004. The Department has not taken action to ensure that rental revenue at DHS facilities is adequate return for the State.

- **Monitoring of Leased Space (Recommendation #8):** The Department should take proactive steps in monitoring leased space and seek to identify any efficiencies (i.e., combining leases to eliminate some costs) that would result in savings to the State. While the Department, through IPAM activities, has developed a lease database, the data needs to be tracked back to changes. While an IPAM official indicated that some lease consolidations were in the planning stages, the Department is not renewing leases until all the facilities management consolidations can be completed. A Department official noted this was the reason so many leases were on holdover status.
- **Disposal of Surplus Real Property (Recommendation #9):** The Department should: take steps to ensure that it is more timely in completing the process of disposing of surplus real property. One surplus property has been disposed of since the release of the management audit – a National Guard Armory site located in Danville was sold by the Department of Military Affairs on April 26, 2004. The Department reported five new properties on the current listing of State-owned surplus properties. It should also be noted that the surplus property list still contains Rice Cemetery in Galesburg and Memorial Park at Read Mental Health Center in Chicago. The Department has not provided documentation to show that it examined to see if the State was receiving fair market value for surplus property currently leased.

Original Response: The Department agreed with the recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation that the previous nine recommendations of the Office of the Auditor General's management audit of the State's Space Utilization Program should be fully implemented. The Department has taken steps since the September 2004 follow-up to the February 2004 Space Utilization Management Audit towards completion of implementation of these recommendations and continues to work towards full implementation.

The Annual Real Property Utilization Report was filed with the General Assembly on February 1, 2005.

In addition, the Department has revised Form A to develop an accurate accounting of land and buildings owned by the State, and have been using this form since September 2004. The Department is also considering a new reporting procedure for wetlands and flood mitigation.

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Finally, the Department is improving efforts and coordination for Strategic Planning across the agency, and will integrate goals and objectives for initiatives and programs across the agency.

13. Implement procedures to ensure GAAP Reporting Packages are prepared in a complete and accurate manner. Further, establish a comprehensive, consistent methodology for determining liabilities and accumulating financial information necessary for accurate reporting of benefit costs.

Findings: The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained significant errors in the determination of certain year-end liabilities.

During the audit of the June 30, 2004 financial statements, the auditors recommended significant adjustments and corrections be made to the financial statements resulting from the Department's failure to establish adequate internal control over the accumulation of information necessary for the proper determination of certain year-end liabilities as follows:

- Health Insurance Reserve Fund liabilities were overstated by \$10,713,000; Local Government Health Insurance Reserve Fund liabilities were understated by \$8,068,000 and Teachers Health Insurance Fund liabilities were understated by \$12,633,000.
- The Department improperly determined accounts payable at year-end for liabilities incurred for health claims and pharmacy benefits provided to members covered by the Health Insurance Reserve Fund and the Teachers Health Insurance Fund. The liabilities in these funds were overstated by \$39,434,000 and \$4,783,000, respectively. The overstatements were due in part to the improper inclusion in accounts payable of payments made subsequent to June 30, 2004 for services rendered after year-end. Department representatives stated payments for such services were made from fiscal year 2004 funds as cash balances were available to make additional payments to the providers. In addition, the Department included amounts in accounts payable that were also recognized in the incurred but not reported (IBNR) calculation, and therefore were recognized twice. This duplication was an oversight in the determination of the liabilities.
- The auditors noted the methodology used by the Department to determine health benefits liabilities/expenses for statewide financial statement reporting purposes was different than the methodology used to determine liabilities/expenses for the Department's internal uses. As such, post-employment benefit costs reported by the Department to the Office of the Comptroller were overstated by approximately \$1,158,000. Furthermore, the Department has not determined the effect such differences in methodology would have on the calculation of benefit costs for on-behalf payments. Per Department officials, adequate consideration was not given to the potential implications of the differing methodologies in use. The Department

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has not established effective lines of communication to ensure development and application of consistent methodologies in the determination of benefit costs and liabilities.

As a result of these deficiencies, the Department's financial statements overstated expenses by a net amount totaling \$34,229,000. In addition, reporting of post-employment benefit costs and on-behalf payments may not be accurate in relation to reported financial statement costs and liabilities.

Original Response: The Department agreed with the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation. The Department is pursuing the services of an actuarial consultant to calculate post employment benefits and incurred but not recorded healthcare claims on a consistent basis. This consultant has significant experience working with the CMS' Group Insurance program. The Department is confident that the collaborative relationship with this industry expert will ensure the development and implementation of a consistent methodology for the development, determination of, and reporting these liabilities.

14. Comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed.

Findings: The Department's Illinois Office of Internal Audit (IOIA) was created by Executive Order #10 on March 31, 2003. During FY04, the IOIA consolidated the internal auditing staff of all legacy agencies and commenced operations. The IOIA did not complete audits of all agencies major systems of internal accounting and administrative control and an effective process to identify new major computer systems or major modification of existing computer systems was not in place.

Major systems, which were included in the two year audit plan but which were not audited, included:

- Capital Development Board – Grants
- Department of Corrections – Grants
- Environmental Protection Agency – Property, Equipment, and Inventories, Agency Operations and Management, Administrative Support Services, and Purchasing Contracting and Leasing.
- Department of Public Health – Revenues and Receivables, Property, Equipment and Inventories

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Additionally, as a result of the consolidation, IOIA assumed primary responsibility for performing independent reviews of computer system development projects or major modifications to computer systems. IOIA did not have an effective process in place to identify and monitor agency computer system projects resulting in development activities not being reviewed at State agencies during the audit period. Department officials have stated the lack of reviews was caused by failure by other State agencies to notify IOIA of computer system projects and organizational inefficiencies from the consolidation. By late in fiscal year 2004, IOIA began implementing a more comprehensive program to gather information from other State agencies regarding computer system development projects that are in progress or planned.

Department officials acknowledge they did not comply fully with the Act. The Department stated they used available resources to comply with the requirements in the Act. The Department developed a comprehensive plan for the audits to provide adequate coverage under the Act. FY04 was a year of transition for the IOIA. It consolidated many agencies into its Department, several of which had been in noncompliance with this Act for several years and were behind in their progress in the current year. Many of these agencies also had experienced turnover and inefficiencies in transition to their new offices and department.

Original Response: The Department and the Illinois Office of Internal Audit disagreed with the auditor's conclusion. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation to comply with the Fiscal Control and Internal Auditing Act by ensuring that audits of all major systems of internal accounting and administrative control be conducted at least once every two years and that independent reviews of major new computer systems and major modifications to those computer systems are performed. Further, the Illinois Office of Internal Audit (IOIA) will pursue amending the Fiscal Control and Internal Auditing Act to recognize risk assessment, as the method of determining which internal control systems will be audited over a two year period.

- 15. The State's Surplus Warehouse should implement an effective inventory control system. An effective inventory control system would improve controls over the receipt and tracking of inventory, reduce the potential for theft, and enable Surplus to better serve the needs of State agencies.**

Also, the Department should evaluate options to increase the compensation received for the sale of the State's surplus property. Further, the Department's Surplus Warehouse should increase efforts to ensure compliance with the Data Security on State Computers Act. Though it is the responsibility of individual agencies to comply with the Act, it is in the best interest of the State for Surplus personnel to ensure that written verification of compliance with the Act

accompany all surplused computer equipment, in accordance with policies and procedures.

Findings: The Department of Central Management Services (Department) Division of Property Management State Surplus Warehouse had several weaknesses in its surplus property management process including:

- Poor inventory control system;
- Ineffective controls for compliance with the Administrative Code;
- Potential for theft;
- Inadequate compensation for sale of computer equipment; and
- Non-compliance with policies designed to prevent violations of State law.

The Surplus Warehouse did not maintain an adequate inventory control system. A paper listing of surplused property would be submitted by agencies with the delivery, which was the only record of surplused inventory. The lack of an inventory control system impedes compliance with the *Illinois Administrative Code* (Title 44, Part 5010), and reduces the ability of Surplus personnel and agencies to locate equipment for potential transfer. This results in a risk that agencies would purchase new equipment when comparable equipment could have been obtained from Surplus.

One method of disposal under the *Illinois Administrative Code* (Title 44, Section 5010.610) is to offer the equipment for the use of any State agency. The lack of an adequate inventory control system hindered the ability of Surplus to offer equipment to State agencies. A comprehensive list of available items was not maintained or disseminated to agencies. However, agencies were permitted to send “want lists” and be notified of requested transferable equipment as it became available (Title 44, Section 5010.640).

Additionally, the lack of effective controls regarding the receipt and inventory of equipment increased the potential for theft of the State’s surplused property. Property would arrive at the Surplus Warehouse, often in large volumes, and Surplus personnel would do a spot check, comparing inventory listed on the delivery form with the inventory delivered, and then sign the form indicating property was received. However, the auditors identified instances where an agency would inadvertently not include equipment in a delivery to Surplus, the spot check by Surplus did not detect the missing equipment, and the form would be signed indicating property had been received by Surplus.

The *Illinois Administrative Code* (Title 44, Section 5010.750) states that “all transferable equipment sold to the public shall initially be offered for sale to the highest bidder.” However, compensation for sale of computer equipment was inadequate. Desktop computer equipment was sold at live auctions in bulk for as little as \$5 to \$10 per computer, compared to being sold individually on the Illinois’ I-Bid Internet auction for \$60 to \$100 per computer. Laptop computers generally sold for an average of \$100 to \$150 at the live auction, as compared to \$350 to \$390 on I-Bid.

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The *Data Security on State Computers Act* (20 ILCS 450) (Act) requires computer equipment be cleared of all data by overwriting previously stored data at least 10 times prior to being surplus, to prevent disclosure of sensitive or confidential information to unauthorized entities, including the general public. Written verification from State agencies that overwriting was performed must accompany equipment to surplus. The auditors tested equipment onsite at the Surplus Warehouse, and determined some equipment was allowed into Surplus that was not accompanied by confirmation of wiping; in these instances, such equipment tended to contain readable information.

Original Response: The Department disagreed with both the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department concurs in the recommendation to implement an effective inventory control system. The Department agrees to look for ways to improve controls over the receipt and tracking of inventory.

The Department accepts the recommendation to evaluate its options to increase compensation received for the sale of the State's surplus property. The Department has been proactive in identifying on-line alternatives (i.e. I-Bid) to a public auction. Per the Auditor's recommendation, the Department will also evaluate the feasibility of amending the Illinois Administrative Code to address the compensation received "on-site" at a public auction.

Finally, the Department accepts the recommendation to increase efforts to ensure compliance with the Data Security on State Computers Act. The Department will continue to be proactive to work with the agencies to comply with the policies and guidelines established to promote agency compliance with the Data Security on State Computers Act.

16. File the reports with the General Assembly within six months of a reorganization taking effect pursuant to the requirements of the Executive Reorganization Implementation Act.

Findings: The Department has not filed reports with the General Assembly regarding reorganization as required.

The Executive Reorganization Implementation Act (15 ILCS 15/11) requires "Every agency created or assigned new functions pursuant to a reorganization shall report to the General Assembly not later than 6 months after the reorganization takes effect and annually thereafter for 3 years. This report shall include data on the economies effected by the reorganization and an analysis of the effect of the reorganization on State government. The report shall also include the agency's recommendations for further legislation relating to reorganization."

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During the audit period the Governor signed three Executive Orders that provided for the transfer of functions to the Department as follows:

- Executive Order 2003-7, “Executive Order to Reorganize Agencies by the Abolishment of Certain Entities of the Executive Branch” abolished 12 entities and transferred functions to the Department of Central Management Services. This Executive Order was generally effective April 28, 2003. The initial report to the General Assembly was due by October 28, 2003.
- Executive Order 2003-10, “Executive Order to Consolidate Facilities Management, Internal Auditing and Staff Legal Functions” provided that “The functions of facilities management, internal auditing, and staff legal functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services”. This Executive Order was effective May 31, 2003. The initial report to the General Assembly was due by November 30, 2003.
- Executive Order 2004-2, “Executive Order to Reorganize Agencies by the Transfer of Certain Media Relations Functions to the Department of Central Management Services” provided that “Media relations functions for each agency, office, division, department, bureau, board and commission directly responsible to the Governor shall be consolidated under the jurisdiction of the Department of Central Management Services”. This Executive Order was effective April 1, 2004. The initial report to the General Assembly was due by October 1, 2004.

The Department has not submitted reports as required by the Executive Reorganization Implementation Act for any of the reorganizations noted above.

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department agrees with the recommendation to file the reports of reorganization with the General Assembly within six months of a reorganization taking effect. The Department filed the report pursuant to Executive Order 2003-10 for the consolidation of Legal on May 4, 2005, and the reports for the consolidation of Internal Audit and Facilities Management will be filed on or before May 13, 2005. The Department filed the report for Executive Order 2003-7 reorganization to abolish certain entities of the Executive Branch on May 4, 2005. The report for Executive Order 2004-2 on the reorganization of Media Functions will also be filed on or before May 13, 2005.

- 17. Work with the Office of the State Comptroller to improve the coordination of the financial statement preparation process to ensure more timely completion of year-end Department financial statements.**

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Findings: Department financial statements for the year ended June 30, 2004 were not prepared on a timely basis.

Department officials have indicated the delay was due to changes made in the process for preparing the financial statements. In prior years, the Department prepared the financial statements, but for fiscal year 2004 the Office of the State Comptroller prepared the initial draft of the financial statements for CMS to review and take responsibility for. The Office of the State Comptroller made a decision to become more involved in assisting State agencies with financial statement preparation to improve control over the financial reporting process, and CMS accepted input from the Office of the State Comptroller.

Untimely preparation of Department financial statements impedes the audit process and could potentially impact the statewide financial statements prepared by the Office of the State Comptroller.

Original Response: The Department agreed with the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Departments agrees with the recommendation. The Department acknowledges its responsibility to the Illinois Office of the Comptroller for preparation of financial statements under the guidelines established in the Statewide Accounting Management System (SAMS) Manual.

18. Implement adequate controls and procedures to ensure property and equipment is properly safeguarded and property records are complete and accurate. (Repeated-2002)

Findings: The Department has not provided adequate control over property and equipment. The auditors tested the physical inventory and location of equipment, equipment purchases, and equipment transfers and deletions, and noted deficiencies in each area as described below.

Physical Inventory and Location of Equipment

During testing of the physical inventory and location of equipment, the auditors selected a sample of 34 items noting the following weaknesses in internal controls:

- Two equipment items with an original cost of \$30,202 (a 1994 Chevy van with an original cost of \$18,957 and a Canon copier with an original cost of \$11,245) could not be located during annual physical inventories.
- Two items with an original cost of \$344,850 were located at sites other than the location listed on the property control records.
- One fax machine was located during the inventory observation but could not be located on the property control listings.

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Department management stated that many of the property control issues noted above were a result of errors or misunderstanding on the part of property control location supervisors. They further stated the Department has established policies and procedures related to property control, but it is the responsibility of each property control location supervisor to ensure property control records are accurate and complete.

Equipment Purchases

During testing of equipment purchases, the auditors noted the following:

- In 1 out of 25 (4%) equipment expenditures examined, the purchase price recorded in the property records exceeded the actual purchase price by \$89.
- In 1 out of 25 (4%) equipment expenditures examined, the location code of the property was determined to be incorrect.

Additionally, the Department purchased three new furniture items in excess of \$500 totaling \$8,451 during fiscal year 2004. The State Property Control Act (30 ILCS 605/7a), requires agencies purchasing furniture to first check with the surplus property administrator to determine if any surplus property can be used in place of new furniture and to file an affidavit prior to any purchase stating clearly why the furniture must be purchased new as opposed to being obtained from surplus. The Department did not file affidavits for these purchases as required.

Equipment Transfers and Deletions

During testing of transfers and deletions of property and equipment, the auditors noted the following:

- During fiscal year 2004, the Department assessed information provided by the Capital Development Board (CDB) regarding capital asset transfers and determined transfers totaling \$373,739 related to properties not titled to the Department. As such, these capital assets were properly excluded from Department records, however, the Department failed to notify CDB of the errors. The Department has provided documentation indicating the capital assets should have been reported to the Department of Commerce and Economic Opportunity.
- In 5 out of 10 (50%) transfers of equipment valued at \$316,664, the Surplus Property Delivery Form completed by the Department did not contain all information regarding the asset.
- In 1 out of 10 (10%) transfers, an incorrect inventory code was used to identify and document the transaction (44 Ill. Adm. Code 5010.310).
- In 1 out of 10 deletions (10%) of equipment valued at \$12,067, the Department was unable to provide documentation supporting the deletion.

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Department representatives indicated the failure to address the transfers from CDB was an isolated oversight and the remaining errors occurred due to lack of staff knowledgeable of the property requirements.

Original Response: The Department agreed with the recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation. The Department will continue to review and refine its controls and procedures to ensure property and equipment is properly safeguarded and property records are complete and accurate.

19. Implement procedures to make all State employees aware of the State of Illinois Vehicle Guide and all rules and regulations related to the use of a State or personal vehicle for business purposes. Further, the auditors recommend the Department establish procedures to ensure timely submission of motor vehicle accident reports (SR-1). (Repeated- 2002)

Findings: The Department did not ensure motor vehicle accident reports were submitted timely by its employees.

During fiscal years 2003 and 2004, Department employees reported 40 accidents while driving state owned vehicles and 1 accident involving a personal vehicle while conducting State business. The auditors noted 19 of the 41 (46%) reports were not filed on a timely basis. SR-1 reports filed late were submitted from 1 to 29 days late.

Department personnel stated its employees are infrequently involved in accidents and therefore are not in the practice of submitting accident reports in accordance with the Vehicle Guide.

The cost to the State to settle all 41 accident claims was \$15,108. The Department represented that during fiscal years 2003 and 2004 one employee was held responsible for the cost of the damage as the employee refused to submit an accident report.

Original Response: The Department agreed in part with the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation. The Department agrees to continue to make all CMS employees aware of the State of Illinois Vehicle Guide and all rules and regulations related to the use of a state or personal vehicle for business purposes.

20. The Governor's Travel Control Board, chaired by the Director, should meet as required by statute and properly and timely submit reports to the Legislative Audit Commission.

Findings: The Governor's Travel Control Board (Board), chaired by the Director of the Department, did not meet quarterly as required. In addition, quarterly travel reimbursement claim reports were not submitted by the Board to the Legislative Audit Commission as required. The Board only met 3 times each in fiscal years 2003 and 2004.

Department personnel indicated the required meetings for fiscal year 2003 were not held as appointments to the Governor's Travel Control Board had not been made, and in fiscal year 2004 work on the State budget prevented members from meeting. Department personnel also indicated, that despite the Board's failure to meet quarterly, requests for reimbursement for exceptions to the Travel Regulations received by the Board were timely reviewed and approved by all Board members, via email correspondence. Additionally, timely communication of the approval to the Department requesting the reimbursement was made via written letter.

Original Response: The Department agreed with the recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted: The Department agrees with the recommendation. During Fiscal Year 2005, the Board has been meeting quarterly.

21. Enforce procedures requiring the approval or disapproval of vouchers within 30 days of receipt, as required by the Illinois Administrative Code.

Findings: The Department did not process invoice vouchers in a timely manner as required by the Illinois Administrative Code.

During testing of 60 vouchers, the auditors noted 17 (28%) vouchers were not approved in a timely manner. Those not approved within 30 days of physical receipt were approved from 4 to 76 days late. Of the 17 vouchers not approved timely, 15 (88%) were also not paid within 60 days of receipt. All but one of the 15 vouchers was paid from the State Garage Revolving Fund.

Department personnel stated the State Garage Revolving Fund experienced cash shortfalls resulting in untimely processing of invoice vouchers.

This violation could lead to the assessment of late charges or penalties to the State. On the vouchers tested that were not approved nor paid timely (15 vouchers as noted above), interest charges of \$77 were appropriately calculated and paid to the vendors. In total, for fiscal years 2003 and 2004 the Department made 541 interest payments for late payment of vouchers totaling \$78,179.

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Original Response: The Department agreed with the finding, but not with the recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation to better enforce existing procedures requiring the approval or disapproval of vouchers within 30 days of receipt as required by the Illinois Administrative Code.

22. Improve controls over leave of absence reporting to ensure employees are properly compensated in accordance with policy.

Findings: The Department did not remove employees on leave of absence from the payroll system in a timely manner. Of the 27 employees taking leaves of absence during the audit period, 4 (15%) were not promptly removed from the payroll system as required.

Department representatives indicated these errors occurred because the payroll department was not properly notified of the employee leaves of absence. As a result, the Department compensated the employees \$23,129 more than they were entitled to receive. Failure to promptly remove employees from the payroll records could result in improperly spent State funds and could create a financial hardship to the employees if they do not realize their compensation has not been computed properly. One employee was overpaid \$944 and reimbursed the State. The other employee on military leave received excess compensation of \$22,185. A payment plan was established, and at June 30, 2004, the employee still owed the State \$12,791.

Original Response: The Department agreed with the finding and recommendation. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Accepted. The Department agrees with the recommendation. The Department's Payroll unit will work with the Department's Internal Personnel unit to develop effective procedures to ensure employees on a leave of absence are removed from payroll in a timely manner. The Department Payroll Unit has recently implemented procedures associated with coordination of Military Leave of Absences.

23. Amend policies to require all employees to maintain time sheets in compliance with the State Officials and Employees Ethics Act.

Findings: The Department is not maintaining time sheets for its employees in compliance with the State Officials and Employees Ethics Act (Act).

The Act requires the Department to adopt personnel policies consistent with the Act. The Act (5 ILCS 430/5-5(c)) states, "The policies shall require State employees to periodically submit time sheets documenting the time spent each day on official State business to the nearest quarter hour."

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The auditors noted most of the Department's employees did not maintain time sheets in compliance with the Act. Employees' time is generally tracked using the Central Management Services payroll system, which is a "negative" timekeeping system whereby the employee is assumed to be working unless noted otherwise. No time sheets documenting the time spent each day on official State business to the nearest quarter hour are maintained for the majority of Department employees. The employees documenting time to the nearest quarter hour were only upper management employees including the Director, General Counsel, and employees in other positions that involve either principal administrative responsibilities for the determination of policy or principal administrative responsibility for the way in which policies are carried out.

Department management stated they relied on advice from the Governor's Office staff which initially stated that agencies using the Central Management Services payroll system would be in compliance with the Act.

Original Response: The Department disagreed with the finding. See booklet for complete Department Response and Auditors' Comments.

Updated Response: Under Study. The Department acknowledges the recommendation and believes that its timekeeping system complied with the applicable statutory requirements based on an informal opinion it received from the Ethics Commission. The Department will seek a formal opinion from the Executive Ethics Commission on the CMS Central Timekeeping and Attendance (CTAS) database system.

Even though the Department believes its current timekeeping system complies with the applicable statutory requirements, earlier this year, it updated and enhanced its current timekeeping policies, including the employee bi-monthly certification, and has published those policies in the CMS Policy Manual.

24. File all Travel Headquarter Reports with the Legislative Audit Commission as required by statute.

Findings: During the auditors' review of Department travel vouchers, the auditors noted Travel Headquarters Reports (Form TA-2) filed with the Legislative Audit Commission (LAC) were not properly completed.

During testing, the auditors noted two employees who, based upon their headquarters designations, should have been included on Form TA-2, but were not.

- One employee was headquartered in Chicago but spent 71% of his time working in the Springfield office. This employee was granted "Employee Owned or Controlled Housing" status pursuant to State Travel Regulations (80 Ill. Adm. Code 2800.410) and was reimbursed travel costs in excess of \$16,000 for fiscal year 2004.
- One employee spent 41% of his time in Springfield and 24% of his time in locations

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other than his officially designated headquarters of Glen Carbon. This employee was reimbursed travel costs in excess of \$8,300 during the last four months of fiscal year 2004.

State Travel Regulations (80 Ill. Adm. 3000.140) defines headquarters as “the post of duty or station at which official duties require the employee to spend the largest part of working time. Headquarters shall ordinarily be the corporate city limits in which the employee is stationed ...”

Department officials stated the employees were involved in functions subject to reorganization to the Department and they were inadvertently omitted from the TA-2 form.

Original Response: The Department agreed with the recommendation. See booklet for complete Department Response and Auditors’ Comments.

Updated Response: Accepted. The Department agrees with the recommendation to file all Travel Headquarters Reports with the Legislative Audit Commission.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03, the Department had \$6,563,258.37 in emergency purchases as follows:

- \$5,864,578.09 to extend the contract for centrex services;
- \$373,534.01 for computer disaster contingency services;
- \$160,814.10 for videoconferencing equipment and maintenance; and
- \$129,332.17 to extend the contract for cell phone service.

During FY04, the Department had \$3,166,943.46 in emergency purchases as follows:

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- \$2,943,838.46 to extend the contract for centrex services;
- \$98,596.00 for repairs to a State garage in Effingham;
- \$74,550.00 for asbestos evaluation at a State warehouse in Springfield; and
- \$49,959.00 for data equipment.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

Central Management Services indicated as of July 15, 2004, the Department had 42 employees assigned to locations other than official headquarters.